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AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-SIXTH CONGRESS

FIRST SESSION

ON

H. R. 3232
(H. R. 5324)

A BILL TO AMEND THE NATIONAL HOUSING ACT, AND FOR OTHER PURPOSES

FEBRUARY 15, 16, 17, 24, 28
MARCH 1, 2, 6, 7, 8, 9, 10, 13, 14, 15, 16, 17, 1939

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AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

WEDNESDAY, FEBRUARY 15, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m. to consider H. R. 3232, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Brown, Patman, Barry, Sacks, Gore, Mills, Martin, Folger, Hull, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner.

The CHAIRMAN. We have here Mr. Stewart McDonald, Administrator of the Federal Housing Administration, who will discuss H. R. 3232.

(The bill H. R. 3232 is as follows:)

[H. R. 3232, 76th Cong., 1st sess.]

A BILL To amend the National Housing Act, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the National Housing Act, as amended, be further amended as follows:

SEC. 2. Subsection (a) of section 203 of title II of said Act is amended to read as follows:

"SEC. 203. (a) The Administrator is authorized, upon application by the mortgagee, to insure as hereinafter provided any mortgage offered to him which is eligible for insurance as hereinafter provided, and, upon such terms as the Administrator may prescribe, to make commitments for the insuring of such mortgages prior to the date of their execution or disbursement thereon: *Provided,* That the aggregate amount of principal obligations of all mortgages insured under this title and outstanding at any one time shall not exceed $6,000,000,000."

SEC. 3. Paragraph 1 of subsection (b) of section 203 of title II is amended to read as follows:

"(1) Have been made or assigned to, and be held by, a mortgagee approved by the Administrator as responsible and able to service the mortgage properly."

SEC. 4. Paragraph 3 of subsection (b) of section 203 of title II is amended by striking out the words "until July 1, 1939".

SEC. 5. Subsection (b) of section 203 of title II is amended by adding to the end of said subsection a new paragraph to be known as paragraph (8) as follows:

"(8) Any contract of insurance heretofore or hereafter executed by the Administrator under this title shall be conclusive evidence of the eligibility of the mortgage for insurance and render the validity of such contract of insurance incontestable in the hands of an approved mortgagee from the date of such execution, except for fraud or misrepresentation on the part of the insured mortgagee."

SEC. 6. Subsection (a) of section 204 of title II is amended to read as follows:

"(a) In any case in which the mortgagee under a mortgage insured under section 203 or section 210 shall have foreclosed and taken possession of the mortgaged property in accordance with regulations of, and within a period to be determined by, the Administrator, or shall, with the consent of the Adminis-

trator, have otherwise acquired such property from the mortgagor after default, the mortgagee shall be entitled to receive the benefit of the insurance as hereinafter provided, upon (1) the prompt conveyance to the Administrator of title to the property which meets the requirements of rules and regulations of the Administrator in force at the time the mortgage was insured, and which is evidenced in the manner prescribed by such rules and regulations, and (2) the assignment to him of all claims of the mortgagee against the mortgagor or others, arising out of the mortgage transaction or foreclosure proceedings, except such claims as may have been released with the consent of the Administrator. Upon such conveyance and assignment the obligation of the mortgagee to pay the premium charges for insurance shall cease and the Administrator shall, subject to the cash adjustment hereinafter provided, issue to the mortgagee debentures having a total face value equal to the value of the mortgage and a certificate of claim, as hereinafter provided. For the purposes of this subsection, the value of the mortgage shall be determined, in accordance with rules and regulations prescribed by the Administrator, by adding to the amount of the original principal obligation of the mortgage which was unpaid on the date of the institution of foreclosure proceedings, or on the date of the acquisition of the property after default other than by foreclosure, the amount of all payments which have been made by the mortgagee for taxes, ground rents, and water rates, which are liens prior to the mortgage, and special assessments which either become liens after the date of the insurance of the mortgage or which are noted on the application for insurance, insurance on the mortgaged property, and any mortgage insurance premiums paid after either of such dates, and by deducting from such total amount any amount received on account of the mortgage after either of such dates, and any amount received as rent or other income from the property, less reasonable expenses incurred in handling the property, after either of such dates: *Provided*, That with respect to mortgages which are accepted for insurance prior to July 1, 1941, under section 203 (b) (2) (B) of this Act, and which are foreclosed before there shall have been paid on account of the principal obligation of the mortgage a sum equal to 10 per centum of the appraised value of the property as of the date the mortgage was accepted for insurance, there may be included in the debentures issued by the Administrator, on account of foreclosure costs actually paid by the mortgagee and approved by the Administrator an amount not in excess of 2 per centum of the unpaid principal of the mortgage as of the date of the institution of foreclosure proceedings, but in no event in excess of $75."

SEC. 7. The last sentence of subsection (b) of section 301 of title III is amended to read as follows: "If the Administrator is of the opinion that the establishment of such an association is desirable to provide a market for mortgages insured under title II and is in the public interest, that the incorporators transmitting the articles of association are responsible persons, and that such articles of association are satisfactory in all respects, he may issue or cause to be issued to such incorporators a certificate of approval, and the association shall become, as of the date of issuance of such certificate, a body corporate by the name set forth in its articles of association."

SEC. 8. Paragraph 4 of subsection (c) of section 301 of title III is amended to read as follows:

"(4) To conduct its business in any State of the United States or in the District of Columbia, Alaska, Hawaii, or Puerto Rico and to have one or more offices in such States or in the District of Columbia, Alaska, Hawaii, or Puerto Rico, one of which offices shall be designated at the time of organization as its principal office."

Mr. McDonald, the Committee will be glad to have you proceed in your own way. I will suggest that it might be well for you to review briefly the history of the Federal Housing Act and the amendments which have been heretofore adopted, bringing the picture down to date, in order that we may more closely follow the discussion on the pending bill.

Mr. PATMAN. May I suggest that this bill does not include Title I, and that Mr. McDonald include in his discussion title I. An effort will be made to insert title I in this bill, and I hope that he will discuss it from that standpoint.

STATEMENT OF STEWART McDONALD, ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION

Mr. MCDONALD. This bill was passed originally on June 27, 1934. Owing to the fact that it called for rather revolutionary methods of insuring home mortgages, it allowed the Administrator to insure mortgages at that time to as much as 80 percent of the appraised value. Because this was against the law in most State, practically a year was consumated in effecting clauses in the laws of those State. In this the F. H. A. was singularly successful.

In the meantime, as the Congressman remarked, title I was pushed aggressively; that was the feature of the Act whereby lending institutions were insured up to 20 percent in order that they might make modernization and repair loans on existing construction. That was pushed aggressively, as I say, because the sentiment of Congress at that time was to administer that part of the act liberally and with force in order to get people back to work quickly. So our rules and regulations in this respect were very broad and liberal. Under this provision of the act something like $200,000,000 was originally set aside to care for anticipated losses. After operating for about a year, as I recollect it, it was found that the losses would not, in all probability, run that high, and the Administration consented to the cancelation of $100,000,000 of that fund. At the same time the insurance was reduced from 20 to 10 percent. Nevertheless the volume continued in a substantial amount, even though the rules and regulations were made a little more rigid, and when that part of the act finally expired in 1937, there had been a volume of business done of approximately $560,000,000. Title I of the act was renewed again last year, this time again on a 10 percent insurance basis, but eliminating certain features which contributed to most of the loss, such as removable fixtures, ice boxes, kitchen equipment, and so forth. The present provision of the act expires this coming July, and now shows a total of $171,000,000 of insured notes. The total gross business to date under title I is $733,000,000 of loans insured.

Now, under these renewed provisions of the act, the restrictions were made even more rigid, and the loss record is more favorable tha nunder the original provisions. Total losses paid to date, under title I, have been $19,345,000.

These claims have been submitted to us by lending institutions, banks, finance companies, and so forth. We take such claims which they confess they can no longer realize on, and attempt to collect them ourselves. In that process we have actually collected $2,924,000 in cash. We have resold repossessed material, or turned it over to other governmental agencies in the amount of $3,478,000, realizing $6,402,010 against that loss, bringing the total unrecovered claims to date to $12,900,000; $2,000,000 of those are uncollectible.

As to the remaining $10,000,000, we feel that we will collect 30 cents on the dollar, depending a great deal on the prosperity of the country in the succeeding 18 months.

On the original notes, where the period was from 3 to 5 years, and where some of the original ones have expired, we feel that we will wind up the entire title I business with a loss somewhere between 2 and 2½ percent.

The CHAIRMAN. What will that figure be in dollars and cents?

Mr. MCDONALD. Probably around $15,000,000 net.

Mr. PATMAN. You are averaging the two periods?

Mr. MCDONALD. Yes.

Mr. PATMAN. What is the last period, after the amendment was made?

Mr. MCDONALD. The gross loss is six one-hundredths of 1 percent under the renewed provisions of the act. We have not had a long enough time to have all of the losses come in, but it will be less than before.

Mr. PATMAN. What will it be?

Mr. MCDONALD. From 1½ percent—it might run as high as 2 percent, but I doubt it.

Mr. WILLIAMS. You say that it will amount to $15,000,000. It seems to me that you have the figures too high, according to your statement.

Mr. MCDONALD. No. We have done altogether, under title I, $733,000,000. Two percent of that would be about $14,000,000. Two and a half percent would be higher.

Mr. WILLIAMS. What is your loss up to now?

Mr. MCDONALD. I have just told you that our losses up to now on unrecovered claims are $12,900,000. This is still in the process of collection. Probably we will collect a third of that, but I should say that our total loss to date, net, if you want me to estimate the recoverable element, would be about $9,000,000.

Mr. WILLIAMS. That is what I thought, from your statement. How do you get the $15,000,000?

Mr. MCDONALD. These loans have yet a considerable period to run. The original loans were written for a period of from 3 to 5 years. Those written for 5 years are still to run. And in that connection, Mr. Congressman, we notice that the failure to pay on these notes is a very sensitive barometer of the prosperity of the country. When people are employed they pay their notes, but as soon as the employment scale runs down even a little bit, we begin to get these claims.

Mr. WILLIAMS. What class of loans have you lost extensively on?

Mr. MCDONALD. On the movable items, such as refrigerators, under the original provisions of the act, which expired in 1936. That is where we took our largest losses.

Mr. WILLIAMS. Has there been any loss with reference to the new building proposition under title I?

Mr. MCDONALD. So far very little.

Mr. WILLIAMS. You have not had time——

Mr. MCDONALD. No; the loss record does not yet show on that. As a matter of fact, to date it has been considerably lower than on the removables. A great many of the loans on new construction are secured by first mortgages, which keeps the loss record down.

The CHAIRMAN. Your total losses as stated by you cover your losses under the disaster loans, too?

Mr. MCDONALD. Under that provision of the act the total is $1,105,000. As a matter of fact, the loss on disaster loans is hardly any greater than on the other title I loans, but there have not been a great

many of them made under the 1938 provision of the act. Out of $171,000,000, only $1,000,000 were disaster loans.

Mr. SPENCE. Where have you made those?

Mr. MCDONALD. Mostly in New England, as a result of the tornado last fall.

The CHAIRMAN. Does not your percentage of loss decrease as time runs along?

Mr. MCDONALD. Some; but not as much as you would think.

The CHAIRMAN. In other words, after a borrower pays for a period he is mighty apt to keep it up.

Mr. MCDONALD. You would think so; but I made a special investigation of that last night, preparing for this hearing, although we do check it right along. You would think that after a man had paid on a loan for 18 months he would be apt to continue, and I suppose he would if he had a job. The controlling factor, however, is whether or not he is employed.

The CHAIRMAN. What you mean to say is that all of them would pay if they could; but if they cannot, they won't do it. But there would be less loss on the older loans, of course?

Mr. MCDONALD. Oh, yes.

Mr. BROWN. What is the length of the loans on new construction? Seven years?

Mr. MCDONALD. Seven years.

Mr. BROWN. It was 10 years up to this last year, was it not?

Mr. MCDONALD. No; it was originally five. There was no limit put on it by Congress, but later the administrative rule was seven.

Mr. WILLIAMS. What is the practice with reference to security in connection with these loans?

Mr. MCDONALD. The lender is supposed to get a mortgage whenever he can. But you cannot get a mortgage on most of these loans—for instance, on a paint job, where a man is painting his house under a modernization plan. Of course, a great many of these houses already have mortgages on them. For instance, whenever the building and loan societies advance funds for a modernization job, they are required by law to take a mortgage. That is one of the reasons why the losses incurred by the building and loan societies have been a great deal less than in any other class of our business.

Mr. WILLIAMS. Is there any loss on these removable fixtures now?

Mr. MCDONALD. We have eliminated most of that now.

Mr. WILLIAMS. Yes; you have under the new act.

Mr. MCDONALD. Yes.

Mr. WILLIAMS. Do I understand that that is where your heaviest loss is?

Mr. MCDONALD. That is very true.

Mr. SPENCE. But those obligations still continue?

Mr. MCDONALD. Oh, yes; a great many. Of course, those things cannot be sold for much.

Mr. SPENCE. Have you a break-down as to what your losses were with reference to personal property?

Mr. MCDONALD. Yes.

Mr. SPENCE. And what the losses were with reference to improvements, and so on?

Mr. MCDONALD. I think so. Haven't we, Mr. Keegan?

Mr. KEEGAN. We can furnish that. We do not have it here.

Mr. SPENCE. And what the losses are with reference to the new construction?

Mr. KEEGAN. Yes.

Mr. SPENCE. If you will give us that it will be appreciated.

(The statements called for are reproduced below.)

FEDERAL HOUSING ADMINISTRATION

TABLE 1.—*Type of improvement: Claims paid on defaulted notes insured under title I of original act*

[Based on a selected sample, as of Feb. 28, 1938]

Type of improvement reported [1]	Percent of total number of claims paid on defaulted notes insured for—		
	Single-family dwellings	Other than single-family dwellings	All types of property
Refrigeration	31.9	37.5	34.1
Heating equipment [2]	18.8	16.5	17.9
Washing machines	12.5	8.7	11.0
Roofing	10.1	5.5	8.3
Building repairs	7.4	5.1	6.5
Building additions	4.5	2.6	3.8
Gas ranges	3.8	3.4	3.7
Painting exterior	2.8	1.8	2.4
Remodeling	2.4	2.2	2.3
Plumbing	2.1	1.7	1.9
Electrical equipment	1.4	2.9	2.0
Interior finish [3]	1.0	.8	.9
All other equipment [4]	1.0	11.1	4.9
All other alterations or repairs [5]	.3	.2	.3
Total	100.0	100.0	100.0

[1] Less than 1 percent of the total claims failed to state purpose for which proceeds of notes were used.
[2] Including boilers, water heaters, stokers, oil burners, portable oil heaters, etc.
[3] Including plastering, interior painting, and papering.
[4] Including air conditioning and institutional, commercial, manufacturing and professional office equipment.
[5] Including cement work, terminex treatment, etc.

Note.—Excluding claims paid on class A ($2,000 to $50,000) notes and on notes payable on other than a monthly basis.

LOSSES FROM RESIDENTIAL CONSTRUCTION LOANS INSURED UNDER TITLE I

The amendment to the act of February 3, 1938, permitted the insurance of residential structure loans under section 2 of title I.

To date, two claims for loss have been submitted, amounting to $4,916.35.

It may be noted that sufficient time has not elapsed in which to express a proper and adequate opinion as to experience on this operation.

Mr. WILLIAMS. Right in that connection, on construction work, you always require a mortgage on that?

Mr. KEEGAN. Where the term is more than 5 years, we require a mortgage on the new construction, under title I.

Mr. WILLIAMS. Why not require a mortgage on all loans regardless of the term for which they run?

Mr. KEEGAN. Usually, if the term is shorter than 5 years, the cost of the loan is small. It is a small job, perhaps a small summer place. For that reason, and also to avoid unnecessary hardship such as the cost of title search, and so forth, we do not require a mortgage in connection with small loans. However, there is a great deal to be said for the idea of requiring one, even though it does put a cost on the borrower that is relatively high.

Mr. SPENCE. Now, give us what your potential liability is on existing obligations.

Mr. MCDONALD. Under title I?

Mr. SPENCE. Yes. In other words, how many of these mortgages are still in full force and effect?

Mr. MCDONALD. What percentage of the original $560,000,000 has been paid off? We cannot get that accurately. We cannot do any more than estimate it because the lending institutions keep those records and do not have to report their payments to us.

Mr. SPENCE. You might give the anticipated loss.

Mr. MCDONALD. Mr. Thompson, have you an estimate on that?

Mr. THOMPSON. Our estimated outstanding balance as of January 1, 1939, is a total of $18,000,000, against the original 20-percent loans, and $46,000,000 against the 10-percent reserve, a total of approximately $64,000,000 under the provision of the original act which expired in April 1937.

Now, under the amended act, under which $171,000,000 was loaned during this calendar year just closed, of course very little has actually run off, so that practically all of the $171,000,000—at least $150,000,000 of it—is still unpaid. There is approximately $64,000,000 under the provisions which expired in April 1937. But that is only an estimate, because the lending institutions do not report to us each month the payments received.

Mr. MCDONALD. The other phase of the Federal Housing activity is insurance of mortgages on small homes and large-scale rental housing operations, which in volume far surpass the activities under title I of the act. This is now the principal activity of the Federal Housing Administration.

Mr. WILLIAMS. But you are referring to title I now. Does the Administration have any thought of asking that title I be continued?

Mr. MCDONALD. I was endeavoring to follow the suggestion of the chairman in giving a brief outline of what have been the Federal Housing Administration's activities down to date and then to discuss this new bill.

Mr. WILLIAMS. Bnt the new bill does not enter into title I.

Mr. MCDONALD. The new bill makes no mention of it.

Mr. WILLIAMS. That is why I am inquiring about it now.

Mr. MCDONALD. Do you want my idea now?

Mr. WILLIAMS. I think now is the time to get it.

Mr. MCDONALD. My idea is that it should be dropped. I do not think the United States Government need continue to guarantee the notes of banks or other lending institutions so as to encourage them to lend money at high rates of interest, especially after they have had 5 years' experience to show them how it can be done. I think that there was some reason for it originally, when they did not know what the average loss record might be, what the expense would be, what the experience would be, and so forth and so on. But now they have been given 5 years' experience. For any that have not, we can give it to them. I mean we can tell them what their loss record will be.

Generally speaking, on the other hand, the banks have a very clean record with us. They have conducted this business, as a whole, in a very high manner. They have not taken advantage of the fact that

they had Government insurance at all. We find that the bankers have handled the business just the same whether there was insurance or not.

Mr. BROWN. Do I understand that you are against loans up to $2,500 on new construction?

Mr. MCDONALD. I am against doing it in any way under this provision of the act, and I do not believe we need continue the other features of title I.

Mr. BROWN. The people of the country are more for this than for any other feature of your bill.

Mr. MCDONALD. There is no reason why the local banks cannot continue that business if they want to.

Mr. PATMAN. If this committee should decide to put title I in anyway, do you have any suggestions as to what the amendments should contain?

Mr. MCDONALD. Yes; we have some suggestions.

Mr. PATMAN. Would you mind stating what they are?

Mr. MCDONALD. I think that it should be limited to a $2,500 loan, and, except on a complete house, it should be limited to 3 years, and, furthermore, I think that the lending institutions could pay us an annual premium of at least 1 percent for the insurance which the Government grants.

Mr. PATMAN. You would not object to it with those provisions in it?

Mr. MCDONALD. I would rather not have it at all.

Mr. BROWN. That would be quite a hardship, to limit it to 3 years.

Mr. MCDONALD. On the small repairs? We anticipated 10 years on the so-called class 3 loans.

Mr. SPENCE. That in effect would put it under title II.

Mr. MCDONALD. No; title II runs for 25 years. I think, incidentally, that this matter of building a small house, a $2,500 house, under title I, when it could just as well be built under title II, on the theory that it is benefiting some poor man, is a mistake. In the first place, it costs him a great deal more under title I than it would under title II, and the fact that that house is built under title I is, as a general rule, in order to avoid the rigid examination, the careful scrutiny, and the inspection which the F. H. A. insists upon for his protection under title II. Under title I these houses can be built anywhere, any place, out of any kind of material.

Mr. WILLIAMS. That is the main thing in it. Under title I they can build them anywhere, but there are certain limitations prescribed by your organization which will not permit them to build except in certain localities.

Mr. BROWN. In my section of the country a $2,500 house is a good house, and we will get very little under title II.

Mr. MCDONALD. I have inspected at Miami, Fla., a big string of houses—I forget how many, but at least 300 or 400—and the same kind of house could be built in your section of the country selling for $2,750, with payments at the rate of $16.80 per month.

Mr. HULL. About what would that be in Minneapolis and St. Paul?

Mr. MCDONALD. The payment for the same mortgage would be more or less the same.

Mr. HULL. What about the cost of the house?

Mr. MCDONALD. It would cost more in Minneapolis, because a man cannot live in the same kind of a house in Minneapolis that he can and does in Florida.

Mr. HULL. If you put a limit on the amount that you will insure, you are favoring one section of the country against another section, are you not?

Mr. MCDONALD. The Minneapolis houses can be taken care of under title II.

Mr. HULL. I know; but we are talking about title I. Is there any reason why one section of the country should have a limit of $2,500?

Mr. MCDONALD. Nobody would want to build a house under title I for more than $2,500, because it costs him more on the loan.

Will you explain that, Dr. Fisher?

Dr. FISHER. Under title I, on a $2,500 loan, with a 7-year financing and a $3.50 discount, which is the maximum now permitted on a new house under title I, and with a loan of $2,500, we estimate the average monthly payment for $1,000 of the proceeds of the loan as $14.73. Under title II, on a 25-year mortgage, the cost is $5.98 per month per thousand.

Mr. SPENCE. Would 1-percent premium per annum cover any losses that the Administration might sustain by reason of those loans?

Mr. MCDONALD. If we had 1 percent per annum this year, we would have an extra income of some $5,000,000.

The CHAIRMAN. Is it not usually more desirable that the borrower should cancel his notes in from 5 to 7 years?

Mr. MCDONALD. If he had as good a house. The only trouble is that that is more difficult to control under title I. We have no way of supervising it.

The CHAIRMAN. Let me ask you this: What do you estimate would be the attitude of lending institutions if you imposed an assessment of 1 percent for extending insurance?

Mr. MCDONALD. That would be merely a supposition on my part. I do not know. I do not think that they would like it to start with, but I think that they would take it. They would still be getting over a 7-percent return, which is pretty sweet.

Mr. WILLIAMS. While we are on that question: You made these loans under title I on existing buildings, or just new buildings?

Mr. MCDONALD. All of them.

I want to show you the type of stuff that can be built under title I, that we did not supervise.

(Certain photographs here were handed to members of the committee.)

Mr. JOHNSON. I have a communication here from the real-estate board in a town of about 60,000. They have taken a great deal of interest in this matter, and they say that—

It is the opinion of the Terre Haute Real Estate Board that in this community and also in similar communities over the country generally, approximately 70 percent of those who want to buy and are able to pay for homes, cannot receive any benefit from the Federal Housing Administration, for the reason that the majority of prospective home buyers need loans on much lower cost homes than can be produced under title II requirements, and the payments are too high under title I. Following are facts which we are this day mailing to the Federal Housing Administrator, Washington, D. C., in a petition regarding this matter:

At least 7 out of every 10 families in this community who are now renters, who want to become home owners, and who will pay for a modest home if given an opportunity, do not have an income sufficient to pay more than $10 to $12 per month for principal, interest, and mortgage insurance or about $12 to $14 with taxes and casualty insurance added. They are the middle half of our families and have less than $1,400 per year income.

They cannot buy homes which meet the minimum standards required under title II of Federal Housing Administration. They will be happy to own a home as provided for under title I. Regulation No. 21, as revised March 18, 1938, limits the maximum maturity of title I insured loans for new residential structures to 7 years and 32 days. This makes the monthly payments so high that it deprives these prospective home buyers of the benefits of the Federal Housing Administration.

A $1,200 loan under present Federal Housing Administration title I regulations requires payments of approximately $17.60 per month, while a $2,200 loan under title II can be arranged to require only $13.31 per month. It hardly seems fair to allow the more well-to-do families a maximum period of 25 years to pay for a home and require those with smaller incomes to pay for their homes in less than one-third of that time.

Approximately 48 percent of our families now own or are buying their homes. They include principally the one-fourth with the highest incomes and those who have inherited a home or wealth with which to buy. More than 90 percent of all the families that have been helped to buy or build a new home by Federal Housing Administration insured mortgages have been from these two classes. We appreciate this help, are grateful to the Administration which has provided it, and trust it will be continued as long as the need exists.

But today more than 70 percent of our really good prospects for the purchase of a home are being overlooked. The present need, especially in towns and in cities of less than 100,000, is for some way to help good, deserving families who can and will pay for a home that will cost $1,200 to $1,800. They can pay 10 percent to 20 percent cash and about $8 per month for principal, interest, and mortgage insurance on each $1,000 borrowed. Substantial, attractive homes which will conform to title I requirements for new dwellings can be provided here at this price.

If the loans are to be made through local or private lending institutions, some method will be required to enlist their support equal to that now being given title II loans.

What happens when one of these middle-class families wants to start buying a home today? Local financial institutions will not loan more than 50 percent and Federal Housing Administration regulations require too large monthly payments. The answer is that they do one of three things: (1) They continue as renters, (2) if they buy they must take something less than the standard of Federal Housing Administration title I requirements for new residences, (3) or they undertake larger payments than they can carry out.

It is almost impossible for those whose intimate contacts are with the class of families whose annual incomes are above $1,500 per year to realize that the greatest opportunity to promote home ownership is now among this middle half with incomes of less than $1,400. Time and again we are told by officials who are sincerely interested in better housing that "for Federal Housing Administration to encourage the buying and building of dwellings below title II standards would create slums and defeat the Federal Housing Administration purpose of providing decent housing in this country." One member of this committee has spent 27 years and another 25 years in selling homes in this city. If those who think $1,200 to $1,800 homes will create slums could only have the opportunity to know the facts as we know them, they would realize that this middle half of our citizens have the qualities of mind and spirit which make good, wholesome communities.

Mr. F. B. Arnold and family and Mr. and Mrs. Alfred Pugh and son are typical of the majority of these families whose cause we are trying to present. We believe that mortgage-loan payments which they can meet will also help not less than 5,000,000 other families of the United States to become home owners. The Arnold family wanted a home with a plot of land where they could have a garden. One hundred dollars cash and $12 per month was as much as they could pay. They had to start with a "shack" of a house because there is no adequate way here to finance the purchase of homes for such families on terms which they can meet. Mr. and Mrs. Pugh have selected a plan for a substantial four-room dwelling with two closets, basement, 50-foot driven well, electricity,

sanitary outside toilet and garage, to cost $1,800. They can pay $400 or more cash and $14 per month, including taxes and casualty insurance, but cannot get it financed on these terms.

Mr. Arnold's family consists of wife, three children at home, ages 10, 15, 19, daughter married. He is 41 years old, is bus driver for the Terre Haute City Transportation System, has second highest seniority in this work, income ranges from $1,000 to $1,200 per year, carries life, sick, and accident insurance, and is educating his children. Attached are six kodak pictures showing the family and their home. They could have a better home if they could get a longer period in which to pay off a mortgage on a $1,400 to $1,600 one.

Mr. Pugh is an employee of Kivits Bros., wholesale commission merchants of this city, is 34 years of age, has an average income of approximately $1,200 per year.

We have today mailed a petition to Mr. Stewart McDonald, Federal Housing Administrator, Washington, D. C., for longer term loans on low-cost but substantial dwellings similar to those now required under title I regulations for new dwellings, and to make them as attractive to investors as are title II loans. In every community, except metropolitan areas, there are many excellent locations on which to build them—locations which are entirely separate from those where title II loans are being made, and which are well suited to the families mentioned.

* * * * * * *

P. S.—Our organization has previously endorsed the resolution passed by the National Association of Real Estate Boards at its thirty-first annual convention, November 12, 1938, urging the granting of insurance mortgages on existing dwellings, so that substantial and desirable properties built previous to January 1, 1937, will not be placed at a disadvantage in the market as compared with new dwellings.

I presume that you have given this whole matter a great deal of thought. What is your reaction to the contention made here, that the group with incomes from $1,000 to $1,400 a year, who are desirous of buying a home, would not be permitted under the operation of this act to buy a home?

Mr. McDONALD. Mr. Congressman, we are deeply sympathetic with any plan to provide suitable and proper homes for everybody, especially those of the low-income group, and are constantly trying to get needed construction for them. But we think it is a mistake for an man to obligate himself on a mortgage on a piece of property which is of inferior construction and which he will have no equity in, because the house will depreciate even faster than his payments.

On the other hand, we think that one of the principal and basic ideas back of the Federal Housing Administration must be to have adequate and substantial construction. We have here a chart which shows that, of all the borrowers, 47 percent during 1938 had incomes of $2,500 or less. That class of people is getting our very serious attention; and one out of every five of our present borrowers has an income of from $1,500 to $2,000.

Furthermore, we have not been without some progress in getting homes even cheaper than those you have mentioned. Here is an article in this week's Life magazine which has attracted attention all over the country. It shows a series of 40 homes built in Fort Wayne, Ind. The cost of the building material was $900. These particular homes were constructed by W. P. A. workers. But homes of this type could be built by private industry for about $1,500, and they are nice little homes.

Mr. JOHNSON. But that is a wholesale operation, and you would not put that in the same class with the home that an individual would want to buy?

Mr. McDONALD. Yes; I would. There is no reason why some contractor could not build them. These houses could be bought and paid for under the F. H. A. for a very small sum, 6 or 7 dollars a month. Right now we are insuring other types of houses purchased on that basis, and 62 percent of all of the houses built under the Federal Housing Administration plan have monthly payments, including interest, amortization, and insurance premium, of less than $30 a month. Some are as low as $14 a month.

Mr. JOHNSON. But that does not take care of the man in the class I am speaking of, which is the great group in our country who really want to become home owners.

Mr. McDONALD. I agree with you entirely, and I wish that I had a prompt solution of your question. The only thing I can say it that there are many groups in the United States, building-supply people, builders, and others interested in this problem, who are trying to find some way of building homes for the great class of people of lower incomes. Down South it is an easier matter, for instance, the houses I cited in Florida. These people are paying only $16.80 a month. But up North, where they have to have basements, heat, and other provisions against the rigorous weather, it costs money.

I am not correct in the statement that I made, that these houses could be bought for $6 a month. It is nearer $9, between nine and ten dollars a month, I am told; but to buy a little house like that for nine or ten dollars a month is certainly a step in the right direction.

Mr. JOHNSON. That is under title II?

Mr. McDONALD. That is under title II.

Mr. JOHNSON. Well, this letter that I read to you expresses the view of the folks out in that territory. Of course, there are people in this group of income with steady employment desirous of owning a home who cannot take advantage of title II, and title I is prohibitive.

Mr. McDONALD. In cost?

Mr. JOHNSON. Yes.

Mr. McDONALD. We think so, too. We think the proper answer is to develop adequate and proper techniques in building the small home.

May I proceed?

The CHAIRMAN. You may proceed.

Mr. McDONALD. Under title II, which deals with the construction of individual homes, the Federal Housing Administration has insurance committed for a matter of $1,704,000,000; $1,300,000,000 of that has been closed. There is still outstanding $227,000,000 for which we are committed. The volume of business coming in at the present time is about a 100-percent increase over the preceding year due to the tremendous impetus given to home building by the provisions which you gentlemen put into the act a year ago.

Likewise, the large-scale housing, or the rental phase of the act, has progressed very satisfactorily, and there are either built or in course of construction approximately $100,000,000 of large-scale rental projects.

Now, that is a brief history of the activities of the Federal Housing Administration down to date. We have conducted a business totaling

$3,258,000,000, which money was all furnished by outside private capital. Here is a table giving details of how that is made up.

(The table referred to follows:)

Volume in dollars of business transacted by Federal Housing Administration, by years

	1934	1935	1936
Total		[1] $498,425,384	[1] $790,646,182
Title I: Property improvement loans insured	$30,450,538	223,620,146	246,149,913
Title II:			
Sec. 203 mortgages selected for appraisal		270,010,238	538,885,269
Accepted for insurance		170,594,864	438,449,153
Premium-paying		93,882,012	308,945,106
Sec. 207 mortgages accepted for insurance		4,795,000	5,611,000
Premium-paying		2,355,000	2,101,000
Sec. 210 mortgages accepted for insurance			
Premium-paying			

	1937	1938	Total
Total	[1] $681,139,233	[1] $1,257,589,364	[1] $3,258,250,746
Title I: Property improvement loans insured	60,382,598	172,747,308	733,350,548
Title II:			
Sec. 203 mortgages selected for appraisal	589,468,385	1,010,584,906	2,408,948,798
Accepted for insurance	447,519,716	647,949,074	1,704,512,807
Premium-paying	424,372,999	473,246,124	1,300,446,241
Sec. 207 mortgages accepted for insurance	31,288,250	67,533,300	109,227,550
Premium-paying	10,549,000	43,971,550	58,976,550
Sec. 210 mortgages accepted for insurance		6,723,850	6,723,850
Premium-paying		3,521,600	3,521,600

[1] Total of title I modernization and repair notes insured, mortgages selected for appraisal, and rental housing mortgages accepted.

As to our loss on mortgages foreclosed in respect to title II, the actual loss to date is $160,707.59. That means we had taken, in foreclosures, four hundred and some properties as of December 31, of which 232 have been sold. Perhaps one-third of our present loss was the result of inexperience in the early days of the Administration, but since then the losses have been very little.

Mr. CRAWFORD. That is where the private individuals made the loan in the first place and you insured that?

Mr. McDONALD. That is right.

Mr. CRAWFORD. And later you had to take them up and foreclose on the property?

Mr. McDONALD. That is right, except that the F. H. A. does not foreclose. The lending institution does that and then may elect to turn the property over to us.

Mr. CRAWFORD. What type of property was that?

Mr. McDONALD. Most of it was existing construction, houses that had been built some time before, on which we insured the mortgage that the banker or the building and loan society put on the house, and the man fell down on his payments, and we immediately saved it, if we could.

Mr. CRAWFORD. Those houses were constructed about when?

Mr. McDONALD. Eighty percent of the houses which we have taken over have been houses on which there was a refunding mortgage. In other words, existing construction. Twenty percent were on new construction, including one large loss on new construction, repre-

sented by a village down here at Newport News, adjacent to the Newport News Shipbuilding Co. We had to take the whole thing over and rebuild it. With the exception of that, our losses on new construction have been light indeed, and they have not been heavy on existing construction. As a matter of fact, our cancelation fees to date have been around $400,000, which is almost three times as high as the losses we have incurred.

Mr. JOHNSON. What would be your solution to the problem of the particular man whose income ranged from $1,100 to $1,400 a year, who can only afford to live in a home costing between $1,400 and $1,800.

Mr. MCDONALD. The analogy of the automobile business is not too far-fetched. As every new home is built, usually somebody moves out of an older home. That home has value, and usefulness, and is usable, and, as a rule, the man with the smaller income takes the place of the man who moved out in order to move into a new home, just as the man buying a second-hand car takes the car of the man who is buying a new one.

I do feel, however, that with the many forces working toward the building of new homes—the lumber people, the brick men, and all of the various materialmen who are serious working on this problem of producing small homes for less money—the day is not far distant when the people in these income groups will be able to buy new homes.

Mr. JOHNSON. Carrying that a little further, you mentioned that those people usually take the homes vacated by people purchasing new ones. What provision do you think should be made to permit these people, who take the homes that are vacated, to buy them and to finance them?

Mr. MCDONALD. They can be financed under the Federal Housing plan if they have sufficient money to make the down payment. The great difficulty with a great many people is that they have not been prudent enough to save money to make the down payment.

Mr. JOHNSON. How much of a down payment is required?

Mr. MCDONALD. On existing construction, 20 percent; new construction, for small, owner-occupied, new homes, 10 percent.

They seem to have no difficulty in making a down payment to buy an automobile, but they have a great deal of difficulty making one to buy a house.

Mr. JOHNSON. I am speaking of the group that I mentioned, that are in position to make a down payment of probably 10 percent.

Mr. MCDONALD. They ought to make a down payment of 20 percent on existing construction for the purchase to be anywhere near safe for them, and safe for the lending institution, and safe for the Federal Housing Administration. It is not safe for a man to make as small a down payment as 10 percent on existing construction.

Mr. CRAWFORD. You consider it an injury to the man to extend such credit to him?

Mr. MCDONALD. I do. I think that there is a lot of misguided sympathy and philanthropy a lot of times which works a hardship upon the borrower rather than a help to him.

Mr. WILLIAMS. Under the present law, can you finance existing construction on a 10-percent basis?

Mr. MCDONALD. No, sir.

Mr. WILLIAMS. It has to be 20 percent?

Mr. MCDONALD. Yes, sir.

I would like to read now a résumé of what this new act provides, as it will answer a great many of these questions you have asked.

This bill contains seven proposed amendments to the National Housing Act. Four of them—sections 3, 5, 7, and 8 of the bill—are solely for purposes of legal clarification of provisions in the act. None of these four amendments would in any way change the character of the operations provided for in the existing legislation.

The three other amendments—sections 2, 4, and 6 of the bill—deal with matters of policy and have an important bearing on F. H. A. operations. I shall summarize these briefly and leave the technical amendments to be described by counsel later.

Section 2 is the most important section of the bill. It has two major purposes: First, it would remove the present limitation in the act that would prevent the F. H. A., after July 1 next, from insuring any mortgages on existing houses unless the houses (*a*) had previously been covered by F. H. A. insured mortgages or (*b*) were built later than January 1, 1937.

In other words, unless some action is taken here by you gentlemen. the F. H. A. must automatically drop out of insuring existing construction after July 1 of this year, which answers one of your questions.

Second, it would increase the amount of mortgage insurance which the F. H. A. may have outstanding at any one time from $3,000,000,000, as now provided in the act, to $6,000,000,000.

Section 4 would make permanent a provisional change that was made in the act last year—namely, the authority of the Administrator to insure mortgages up to $5,400 for an amortization period up to 25 years, if the mortgage is approved for insurance prior to the beginning of construction and if the house is to be occupied by the owner.

If you recall, last year you made a provision, which expires this July, allowing the Administrator to insure houses where the mortgage was $5,400 or less for a period of 25 years. Twenty years was the normal period at that time. As the act now stands, the authority of the Administrator to insure such mortgages for an amortization period of more than 20 years will expire on July 1, next.

Mr. SPENCE. That covers the $6,000 houses?

Mr. MCDONALD. That covers the $6,000 houses. I did not touch upon the bracket in between $6,000 and $8,600, which we had a long discussion on last year, as you will remember.

In connection with this special class of mortgages up to $5,400, I would point out that the insurance premium to be charged by the F. H. A. on such mortgages was fixed last year by amendment to the act at one-quarter of 1 percent in the case of these special mortgages accepted for insurance prior to July 1, 1939. The present bill makes no provision to extend the one-quarter of 1 percent premium to mortgages accepted for insurance after that date. As the law now stands, a minimum premium of one-half of 1 percent will be applicable to all mortgages accepted for insurance after July 1, next.

In other words, on those small houses, for a temporary period, you authorized the Administrator to charge only one-quarter of 1 per-

cent, and not deduct the amount from the insurance fund. That expires on July 1.

Section 6——

Mr. PATMAN. What about section 5?

Mr. MCDONALD. That is a technical amendment.

Mr. PATMAN. What does it do?

Mr. MCDONALD. Mr. Bovard, will you answer that?

Mr. BOVARD. That is one of the clarifying amendments. Section 5 applies to our insurance the same rules which have always been applied to all insurance operations. It has always been the position of the Administrator and of most mortgagees that an institution purchasing an insurance mortgage has a right to rely upon the validity of an insurance contract without redetermining for itself all of the facts with respect to eligibility which had previously been determined by the Administrator, and that the insurance contract entered into by the Administrator will bind his successors in office. Some mortgagees, however, have questioned this position, and this amendment is for the purpose of removing that doubt on this point.

Mr. PATMAN. In other words, to make it impossible for Mr. McDonald's successors, if they desired to do so, to render invalid these contracts?

Mr. BOVARD. That is right.

Mr. MCDONALD. If I insure a $5,000,000 property for 20 years, somebody 15 years afterward could not say that I had no right to do it. The big life-insurance companies bring that question up with respect to large mortgages on large scale rental properties.

Section 6 would extend for a period of 2 years another provision of the act that would otherwise expire by limitation on July 1, next. This is the provision under which the F. H. A. absorbs foreclosure costs up to 2 percent of the unpaid principal of a mortgage—though not more than $75 in any given case—where mortgages in what is generally known as the 90 percent category default before the principal obligation has been reduced to 80 percent.

The thought in back of that is that in some States, particularly in New York, the foreclosure cost is very high, and no lender would go ahead and make a 90-percent loan if he thought he would have a foreclosure in the first 2 or 3 years, when his foreclosure cost would exceed the down payment and authorization of mortgage on the property. It was in an endeavor to overcome that fear that that provision was put in on these small homes.

In some States the foreclosure cost is very high; in Illinois and New York it is very high.

That, gentlemen, covers in brief the reason for the appearance of the Federal Housing Administration before you today, to ask you to consider and decide what you wish to do with reference to these important phases of the act which expire July 1 of this year. My thought in appearing as early as possible this year before you is prompted by a desire to have the legislation decided at the earliest possible date, due to the fact that we are having inquiries in large numbers from builders, particularly large builders and speculative builders, who wish to go ahead with important suburban additions to our cities. They are not willing to do so unless they are certain that the insurance as it now stands will be available. It takes these men quite a little while to get

ready. They have to locate their land, sometimes a considerable acreage, clear the title, and oftentimes put in sewers and water, make landscaping developments, and plan their houses and build them in substantial quantities in order to take advantage of the price that goes with the purchase of large quantities of material, and so forth and so on. These men, if they start right now, will barely have time to get their houses on the market in the fall. So unless we know at an early date what the wish of Congress is in this respect, it may have a marked effect on the new construction program which responded so readily to the act last year and is still going along very aggressively. If we do not do something now I am certain there will be a considerable slowing down in the building of small homes.

Mr. WILLIAMS. It seems to me, from my understanding of the situation, that the most vital thing, the important thing, is whether or not the Administration is going to insure loans on existing structures.

Mr. MCDONALD. That is very important.

Mr. WILLIAMS. So far you have been limited, and unless this one amendment here is enacted your power will expire on July 1 of this year. Am I correct in that?

Mr. MCDONALD. May I have that question again?

Mr. WILLIAMS. I say, unless this amendment that you are asking for is passed, your authority to insure loans on existing structures will expire this year.

Mr. MCDONALD. On July 1.

Mr. WILLIAMS. Now, what part of the business has been on existing structures?

Mr. MCDONALD. In the early days of the Administration, a great deal of it; when we started several years ago, as high as 60 and 70 percent, even all of it originally. Gradually the new construction has come up, until in the last 2 or 3 months I think our volume was running almost 70 percent in new construction. In the last 2 or 3 months the ratio has been about 30 percent existing construction and 70 percent new construction.

Mr. WILLIAMS. So the amount of business done on existing structures has been declining?

Mr. MCDONALD. Yes, sir; in proportion to our total business.

Mr. WILLIAMS. That is, the proportion?

Mr. MCDONALD. Yes, sir.

Mr. WILLIAMS. Do you think that we ought to continue to insure existing structures?

Mr. MCDONALD. I do, sir. At one time I did not.

Mr. WILLIAMS. I just wanted to ask you what has changed your attitude on that.

Mr. MCDONALD. I might read one thing that has changed my mind. I think that one of the greatest real-estate men in the United States is from your State, and he wrote me a letter that covers the situation better than I have ever heard it expressed. I received that letter yesterday, and I would like to read it.

Mr. WILLIAMS. I have some doubt about that myself, and I would like to hear it.

Mr. MCDONALD. Do you know J. C. Nichols, of Kansas City?

Mr. WILLIAMS. No.

Mr. McDONALD. He does one of the largest businesses and is one of the best-known real-estate men in the United States. He says:

After a lot of consideration I feel that Federal Housing Administration loans should be extended to old houses on the same basis as new houses. I did not feel that way some time ago. However, such a serious situation has developed in selling old houses as compared with new houses, that I feel we are going to have a very acute crisis in marketing and moving old houses unless they could be financed on the basis as easily as new houses. I am carrying nearly half a million dollars of new unsold houses and it would seem natural for me to want them favored as to loans over what can be done with old houses. However, we are finding it necessary to take in so many trade-ins of old houses in order to dispose of our new houses, and the old houses have become such a problem as to financing that I believe it will be more sound and more supporting to the whole home market of the country if older houses could obtain the same Federal Housing Administration insurance that new houses enjoy. I am assuming, of course, that Federal Housing Administration would protect itself in proper appraisals of the older houses.

I am really becoming quite concerned as to the overbuilt condition developing in a number of our American cities, particularly as to the large number of used houses being forced on the markets unable to find buyers who can finance them.

I think that you can go back to the analogy of the automobile again, that you cannot sell a new one unless you can dispose first of the old one, and if we cannot insure existing structures, it will be a severe blow to the property values of existing construction, because it will remove the facilities of easy mortgage money from a great many of these homes.

Mr. WILLIAMS. You still have the idea, have you, that you ought not to go beyond the 80 percent?

Mr. McDONALD. I think so, and I think that we ought to have 80 percent on new homes if they are to be over $6,000.

Mr. WILLIAMS. We have that.

Mr. McDONALD. Yes. We are not penalizing existing construction any more than new construction. We are merely favoring new construction when that gets down to a lower value.

Mr. WILLIAMS. You have your appraisers to determine the value of these old houses, do you not?

Mr. McDONALD. Yes.

Mr. WILLIAMS. You have a regular formula?

Mr. McDONALD. We have a very careful system on that.

Mr. WILLIAMS. In recent years, has there been any material loss along that line?

Mr. McDONALD. Our losses to date have been not excessive in either new or existing construction, but they have been higher in existing construction than new construction. Perhaps that is because, as I explained, in the early days of the Administration, the first 2 years, there was very little new construction going on, and our business was on existing construction. Now, with the percentage of new construction coming in, and with our inspections and appraisals, as you so aptly mentioned, I think that we can eliminate most of the risk in existing construction.

Mr. WILLIAMS. Do you feel that it is just as good a risk now as a new structure?

Mr. McDONALD. Properly appraised, I do, yes. And sometimes a great deal better value.

Mr. WILLIAMS. What is the minimum that you would insure a structure for under the new act?

Mr. McDONALD. Existing structure? We insure any amount. Do you mean a $1,000 house? Yes.

Mr. WILLIAMS. You mean you would insure a $1,000 house with a 25-year mortgage on it?

Mr. McDONALD. Oh, no. On existing structures we never insure over 20 years. The length of a loan, provided that the house is substantially built, is not measured so much by the property itself or whether it is new or existing construction as by the age of the man making the loan, his business outlook, and the conditions surrounding his life. We take care of the property through our appraisal system, to see that it will stand that length of time. If a man is 60 years old and wants a 20-year mortgage, we do not look with much favor upon the transaction, unless he has some young member of his family endorsing the note.

Mr. WILLIAMS. Isn't the length or the duration of the mortgage determined by the character of the structure?

Mr. McDONALD. I do not think that we would care to insure a house for 15 years where 20 years was asked and cut it down for 5 years just because of the structure. I do not think that you can look at a house, like you would a horse, and say that it will fall down in 20 years and won't fall down in 15 years. And in that connection our experience might interest you. A study of all the cities in the United States shows us that the value of homes, as a rule, is not determined so much by the depreciation of the house itself as it is by the neighborhood that the house is in. In other words, we believe in our establishment that houses remain standing and in good condition long after a neighborhood has gone to pieces. We have exemples in New England of many homes that are habitable even though they are 100 to 150 years old; and if they are in good neighborhoods, they make just as good homes as some of the homes recently built.

Mr. WILLIAMS. What is the range of maturity of the mortgages that you insure?

Mr. McDONALD. Twenty years and twenty-five years. Out of 100,000 new homes, approximately 40,000 of them were homes under $6,000 and insured for a period of 25 years. Those were homes with the 10-percent down payment, insured under the provisions of this law, which allows them to be insured for 25 years, and 40 percent were so insured.

Mr. WILLIAMS. Have you any for less than 20 years?

Mr. McDONALD. Oh, yes.

Mr. WILLIAMS. That is what I meant by the range.

Mr. McDONALD. Oh, yes. Until you put in this provision for 25 years, 20 years was the limit, and the average was 16 or 17 years.

Mr. WILLIAMS. What is your minimum?

Mr. McDONALD. How short a loan have we made?

Mr. WILLIAMS. Yes.

Mr. McDONALD. We made one loan for as low as 3 years.

Mr. WILLIAMS. Then it runs from 3 years to 25?

Mr. McDONALD. That is right. I would say from 5 to 25. It would be an exception to make one for 3 years.

Mr. WILLIAMS. Who determines——

Mr. McDONALD (interposing). The borrower, in the first place, makes his request to the lending institution. The lending institution submits it to us, and if we find no criticism the borrower gets what he

requests. These men who request less than 25 years, or less than 20 years, or less than 15 years, who want a shorter loan, are willing to pay more in order to get rid of their mortgage more quickly.

Mr. WILLIAMS. And you take them if you think they are good?

Mr. MCDONALD. Yes.

Mr. WILLIAMS. Within the 25-year limit?

Mr. MCDONALD. That is right.

Mr. WILLIAMS. Did I understand you to say that at the present time, under this new act, about 30 percent of your business has been on existing structures?

Mr. MCDONALD. I would say that the business is currently running about 30 percent on existing construction.

Mr. WILLIAMS. Of course, formerly it was much higher?

Mr. MCDONALD. That is right.

Mr. WILLIAMS. And that is where your losses have been?

Mr. MCDONALD. We have met more loss on existing construction than on new construction, but the losses have been relatively small.

Mr. WILLIAMS. Of course, the purpose of insuring new structures is to create building activity and to provide new homes and furnish labor and a market for material, and all that kind of thing; all of that argument could be made for the insurance of the mortgages on new structures.

Mr. MCDONALD. That is right.

Mr. WILLIAMS. What is to be said for these mortgages on existing structures? Why could not the local lending agencies take care of them?

Mr. MCDONALD. You might say the same thing about the new construction; why could not the lending agencies take care of the new construction?

Mr. WILLIAMS. Of course, in the first place, you raised it to 90 percent instead of 80 percent, and in the next place it involves all of these other elements that we are trying to take care of.

Mr. MCDONALD. I do not think that the average lender is primarily interested in whether he is putting men to work. I think that the security of his loan is the first thing that he is interested in.

Mr. WILLIAMS. I am not looking at it from the standpoint of the lender, but from the standpoint of the F. H. A.

Mr. MCDONALD. I do not see how you can expect to find a great stimulation in new construction unless you make it easy for a man to go ahead on existing construction. A great many people would like to buy a new home, and unless they found it very easy to dispose of the old one they will remain where they are just a little longer.

Mr. WILLIAMS. You think that that is one way of stimulating new building?

Mr. MCDONALD. I do, indeed.

Mr. WILLIAMS. Is there any inclination on the part of banks or lending agencies or building and loan associations and the mortgage companies to completely let down on this mortgage lending business and not to furnish the capital?

Mr. MCDONALD. I will have to ask you to repeat that.

Mr. WILLIAMS. I want to ask you if, from your experience and operation, there is a tendency on the part of the lending agencies, the mortgage companies, the banks, and the building-and-loan associations that heretofore have furnished money to finance homes to entirely go out of that field and leave it to the F. H. A. on insured mortgages?

Mr. MCDONALD. I do not think that they are getting out of that field. I think that, on the contrary, the mortgage companies and the banks could not do that business unless the insurance facilities were there, because it is against the banking laws for the banks to make a high-percentage loan, and the mortgage companies and the life-insurance companies in a great many States under their charters cannot do it unless there is F. H. A. insurance. So it is a question of legality in a great many cases.

Mr. WILLIAMS. Has the F. H. A. taken over the field heretofore occupied by those different agencies?

Mr. MCDONALD. I do not think so. I am not able to tell you the exact figures of the business done in previous years by the mortgage companies and the banks. Of course, the mortgage companies were very badly hurt in the depression, but they are coming out of that. They were helped out tremendously by the H. O. L. C., and so were the banks; and so were the building-and-loan societies, as far as that is concerned. The Federal Housing Administration, I think, insures practically all of the loans made by the banks, and I am quite certain that they would not make the same loans if the F. H. A. were not here.

Mr. WILLIAMS. You will remember that we created a national mortgage association, or provided for one or more than one. Have there been any of those organized?

Mr. MCDONALD. We tried very hard to get some organized, and last year we had facilitating legislation passed, if you recall, and rather than wait to have any private ones organized, we requested the R. F. C. to organize one in order to stimulate construction and extend easy credit, particularly in States where mortgage money at low interest was not readily available. So the R. F. C. organized the First National Mortgage Association, which now is doing a substantial business. They purchased first of all, a matter of $32,000,000 of F. H. A. mortgages from the R. F. C. Mortgage Co., which had acquired them around the country. In addition, they have actually purchased another $40,000,000. They have issued two series of debentures, the last of which was for $50,000,000 for a period of 5 years on a 1⅝-percent basis.

Mr. WILLIAMS. The primary purpose of the organization was to furnish a market for real-estate mortgages, insured, was it?

Mr. MCDONALD. To furnish a market for real-estate mortgages, and to furnish money to lending institutions that wanted to originate mortgages and not keep them. I have made an analysis recently of the portfolio of the Federal National Mortgage Association, and I find that substantially all of the mortgages they have purchased have come from places like South Carolina, Arkansas, parts of Texas, New Mexico, Oklahoma, Michigan, and Illinois.

Mr. WILLIAMS. Those mortgage associations are not authorized by law——

Mr. MCDONALD (interposing). There is only one. The Federal National Mortgage Association is the only one. We have never authorized any other ones to be formed.

Mr. WILLIAMS. I started to ask you whether or not they are authorized under the law to make loans direct.

Mr. McDONALD. On certain kinds of mortgages, yes; on a large-scale rental project; but they cannot on the small homes.

Mr. WILLIAMS. They simply take over those mortgages that may be made by other institutions?

Mr. McDONALD. Precisely. It might interest you to know the system they have which stimulates construction in small towns, particularly by saying to the building and loan society, or the banker, or whoever it may be in the small town, "You go ahead and lend the money to build this house on an F. H. A. insured mortgage, and pay us 1 percent, and we will give you a commitment, and when the construction of the house is completed and the mortgage is finally approved and filed, we will take the mortgage off of your hands, and rebate your 1 percent."

Mr. WILLIAMS. Do they buy mortgages except the insured mortgages?

Mr. McDONALD. No, sir.

Mr. WILLIAMS. They must first have the insurance of the F. H. A.?

Mr. McDONALD. Precisely.

Mr. WILLIAMS. Before the National Mortgage Association can buy——

Mr. McDONALD (interposing). But they will only buy on new construction. That is not true with the National Mortgage Association, the reservation not to make a loan direct, But with one organized by private capital, and none have been as yet, they could make a loan direct if they wanted to.

Mr. SPENCE. You say that you have stimulated the lending by banks that otherwise would not go into this field. What effect have you had on the building and loan associations, organized exclusively for lending on real estate?

Mr. McDONALD. The banks have given them competition.

Mr. SPENCE. Do you think that had a deterrent effect upon them, or a stimulating effect?

Mr. McDONALD. Well, I do not know that it has added to their business. They have the facilities of the F. H. A., if they want them, as a rule. I think that about 15 percent of our insurance comes from building and loan societies.

Mr. SPENCE. In other words, does the fact that they can insure their mortgages have a stimulating effect upon the building and loan associations? Do you think that that would encourage building associations to make loans?

Mr. McDONALD. I think that the building associations do make loans as far as they have capital available.

Mr. SPENCE. They have to do that; they have no other means of investing their money.

Mr. McDONALD. Because that is the only way they get income. The F. H. A. has also drawn into the field capital which either was not available for long-term amortized loans, but has also stimulated life insurance companies to go into a great many places where they had not gone before. I can relate to you the experience of two life insurance companies, and could give you their names if they are wanted, and there are many more, that have gone out and endeavored to purchase F. H. A. loans in parts of the country where they had never operated before. I know one New England life insurance company that acquired about $20,000,000 worth of F. H. A. mortgages

in places most remote from their headquarters, which money is placed on a 5-percent basis.

Mr. GAMBLE. Do they insure to a considerable extent, the building and loan associations?

Mr. McDONALD. To a certain extent. I will place the figures in the record.

(The matter referred to follows:)

Lending institutions financing net mortgages accepted for insurance

[Cumulative through Dec. 31, 1938]

Type of lending institutions	Number of institutions	Volume of mortgages			Percent new homes
		Number	Amount	Percent of amount	
National banks	2,150	112,389	$459,412,495	30.0	55.4
State banks and trust companies	2,551	98,734	402,771,143	26.4	53.6
Total commercial banks	4,701	211,123	862,183,638	56.4	54.6
Building and loan associations	1,523	51,021	203,386,719	13.3	56.5
Mortgage companies	229	50,430	225,146,555	14.7	68.2
Insurance companies	215	27,524	131,389,504	8.6	54.5
Savings banks	131	10,047	44,500,119	2.9	57.2
All others	50	13,761	62,502,648	4.1	66.8
Total	6,849	363,906	1,529,109,183	100.0	57.4

Mr. WILLIAMS. There is one other thing I want to get clear in my own mind, and that is the question about the premium to be paid under this bill. What, if any, change will be made in the premium required to be paid by the mortgagor for the insurance?

Mr. McDONALD. When the act was originally written, the Administrator was allowed to charge anywhere from one-half of 1 percent to 1 percent, if I remember correctly, and that applied to the original amount of the note. Subsequently that was changed and it was made to apply upon the reduced principal of the note. Last year a special provision was put in to enable the stimulation of construction of small homes, reducing the premium to one-quarter of 1 percent on a certain class of property.

We feel that the difference between the cost to the borrower of carrying a mortgage at a quarter of 1 percent per annum and one-half of 1 percent is so small, and because of the fact that one-quarter of 1 percent won't be adequate to cover losses to the insurance fund, that that provision should be allowed to expire and the one-half of 1 percent prevail.

Mr. WILLIAMS. In other words, go back to where it was formerly?

Mr. McDONALD. Not formerly.

Mr. WILLIAMS. On the unpaid principal?

Mr. McDONALD. Yes; on the unpaid principal.

Mr. WILLIAMS. That will apply to all classes of insurance?

Mr. McDONALD. Yes.

Mr. WILLIAMS. The way it is now?

Mr. McDONALD. Until July 1, you will have one-quarter of 1 percent on houses under $5,400.

Mr. WILLIAMS. And the rest is one-half of 1 percent?

Mr. McDONALD. That is right.

Mr. SPENCE. What was the entire income last year of your organization?

Mr. MCDONALD. I have this figure as my estimate for the next fiscal year, which I will read as it will answer your question. This year (and last year it was not quite as large) examination fees, $3,881,000; premiums, $11,000,000; examination fees for the large rental housing, $517,000; premiums on the large houses, $985,000; interest on investment, mortgage insurance fund, which is now $24,000,000 and was originally $10,000,000, $768,000; interest on investment in the housing fund, $49,000; total receipts, $17,096,000.

Mr. SPENCE. What were your losses?

Mr. MCDONALD. The losses to date have been around $160,000, but not included in that figure have been receipts aggregating $417,000, what we call a cancelation fee. In other words, we estimate that in the next fiscal year our income will be $17,000,000 and our expenses $12,500,000, or a net surplus of $4,596,000.

Mr. SPENCE. What are your assets and what has been your income over the period of years?

Mr. MCDONALD. Our losses over the entire period have been only $160,000.

Mr. SPENCE. What has been your entire income?

Mr. MCDONALD. I do not have that. Of course, like with the insurance companies, the income each year increases on more or less of an arithmetical progression, because——

Mr. SPENCE. You have your potential liability accurately estimated?

Mr. MCDONALD. Oh, yes.

Mr. SPENCE. What do you estimate your actual liability to be?

Mr. MCDONALD. Our gross liability at the present time?

Mr. SPENCE. Or anticipated loss.

Mr. MCDONALD. $1,300,000,000 plus, in premium-paying mortgage is our contingent liability, but as a contra-asset we have the houses.

Mr. SPENCE. What do you anticipate your losses will be on the amount that you have written?

Mr. MCDONALD. Our fund is about $25,000,000. Of course, for every mortgage we insure, we have the contra-asset of the houses, which in time may be sold, and the difference between what they bring and our insurance is our loss, but we have been able to sell those houses at comparatively small losses.

Mr. SPENCE. What has been the average loss that you sustained on the property that you had to acquire?

Mr. MCDONALD. $696 per house.

Mr. WILLIAMS. Did I understand you to say that your mutual insurance fund was what?

Mr. MCDONALD. Approximately $25,000,000.

Mr. WILLIAMS. And you have another insurance fund.

Mr. MCDONALD. $1,000,000.

Mr. WILLIAMS. Just 1 million?

Mr. MCDONALD. Yes; that is the one for the large rental projects. You see, we took out of the mutual mortgage insurance fund, if you will recall last year, the operations of the large rental properties, because it was realized that if we were to have the misfortune of a heavy loss on a large rental project, it would be jeopardizing the interests of a great many small-home owners in the mutual mortgage insurance fund. For that reason a separate fund of $1,000,000 was set up.

Mr. WILLIAMS. Is there an accumulation there, too?

Mr. MCDONALD. Yes; it has accumulated about half a million dollars.

Mr. WILLIAMS. Have there been any losses?

Mr. MCDONALD. Not a dollar so far.

Mr. WILLIAMS. In the big house proposition?

Mr. MCDONALD. Not yet.

Mr. WILLIAMS. You have not had any yet?

Mr. MCDONALD. Not any yet.

Mr. WILLIAMS. Have you had to take any of them over?

Mr. MCDONALD. No. One of them is scaring me a little bit, but I have not taken it over.

Mr. WILLIAMS. What are your administrative expenses?

Mr. MCDONALD. Last year they were about $12,000,000; $9,000,000 of that came out of the mortgage insurance fund to pay our expenses.

Mr. WILLIAMS. And the Congress appropriates so much?

Mr. MCDONALD. Yes.

Mr. WILLIAMS. What was it last year?

Mr. MCDONALD. $8,500,000.

Mr. WILLIAMS. That is for the fiscal year 1939?

Mr. MCDONALD. Yes; of which $5,000,000 comes from the fund. We had to have an extra $5,000,000. In other words, we spent $12,000,000, approximately, last year, and we expect to spend about the same amount next year.

Mr. WILLIAMS. But of that amount, a certain amount comes out of the mutual insurance fund?

Mr. MCDONALD. Last year $5,000,000, and the coming year $9,000,000.

Mr. WILLIAMS. Nine million out of the twelve million?

Mr. MCDONALD. Yes.

Mr. WILLIAMS. The Government will appropriate, then, a net of $3,000,000, and the other $9,000,000 will come out of the insurance fund?

Mr. MCDONALD. Yes.

Mr. WILLIAMS. Is that correct?

Mr. MCDONALD. Not quite. The Government appropriates $3,000,000. Our total income will be $17,000,000, and out of the $17,000,000 we are told that we can use $9,000,00.

Mr. WILLIAMS. You do not give the Government anything? You keep that in the mutual reserve fund?

Mr. MCDONALD. That is right.

Mr. WILLIAMS. Am I correct in that statement?

Mr. MCDONALD. You are.

Mr. WILLIAMS. That out of the $12,000,000 of operating expenses, $9,000,000 of it comes out of the mutual insurance fund?

Mr. MCDONALD. That is right.

Mr. WILLIAMS. And Congress appropriates the other $3,000,000?

Mr. MCDONALD. That is right, but our insurance fund also increases the difference between the $9,000,000 and the $17,000,000, which will be about $8,000,000.

Mr. WILLIAMS. I understand that, but that is part of the mutual insurance fund which is maintained for the purpose of making this insurance good?

Mr. MCDONALD. That is right.

Mr. PATMAN. On page 2 of this bill, H. R. 3232, I notice this proviso:

Provided, That the aggregate amount of principal obligations of all mortgages insured under this title and outstanding at any one time shall not exceed $6,000,000,000.

Under the present law, I believe that that is $3,000,000,000. When do you expect to reach this figure of $6,000,000,000?

Mr. MCDONALD. Would you mind if I had our statistician reply to that?

Dr. FISHER. We expect to attain the $3,000,000,000 during the fiscal year 1940. How soon we will attain $6,000,000,000 depends upon how rapidly we do business after that time. During the next fiscal year we expect to select for appraisal approximately $1,050,000,000, and if we continue at that rate, the six billion would probably be enough to last us for 2½ years at the rate we expect to go during the next fiscal year. The $6,000,000,000 is fixed as a maximum in the light of the total amount of obligations outstanding in the United States, which is estimated to be between seventeen and twenty billion dollars.

It is felt that if the administration is to be effective in the market, it should be authorized to insure a sufficient amount of the total amount outstanding, and that is $6,000,000,000 out of a total of seventeen to twenty billions.

Mr. PATMAN. About one-third?

Dr. FISHER. It would be approximately one-third.

Mr. PATMAN. That is all that I have.

The CHAIRMAN. It is now some time past 12 o'clock. Without objection, we will adjourn until tomorrow morning.

We will resume this hearing at 10:30 o'clock.

(Thereupon, at 12:18 p. m., an adjournment was taken until Thursday morning, February 16, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

THURSDAY, FEBRUARY, 16, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, at 10:30 a. m., pursuant to notice, for further consideration of H. R. 3232, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Brown, Patman, Barry, Gore, Mills, Martin, Folger, Hull, Wolcott, Gifford, Luce, Gamble, Simpson, Johnson, Kean, and Miller.

The CHAIRMAN. The committee will come to order. Mr. McDonald.

Mr. MCDONALD. Yes; Mr. Chairman.

STATEMENT OF STEWART McDONALD, ADMINISTRATOR OF FEDERAL HOUSING ADMINISTRATION—Resumed

The CHAIRMAN. Mr. McDonald, I do not know whether the members of the committee have concluded their inquiries of you or not. If members desire to interrogate you further the Chair will recognize them.

Mr. GIFFORD. I was not here yesterday, Mr. McDonald, but I understood that you proposed to discontinue title I. Is that right?

Mr. MCDONALD. Yes, sir; that is correct.

Mr. GIFFORD. Briefly, I want to say that after the floods up in New England, title I was a life line to our people in the repair of their homes. Certain towns in my district lost 30 percent of their assessed valuation, and much repairing had to be done, and there is demonstrated to me the necessity of continuing title I in the act. I appeal to you, even though you asked to have it eliminated, that title I be continued in this bill, because it was so much more effective than was the Disaster Loan Corporation. For instance, a man with a heavy mortgage on this house found himself in need of very extensive repairs, and the banks were willing to do it under title I of the National Housing Act. It seemed to be the only way to get it done. One lumberman told me that even though the local bank in his city refused to take care of these loans he found a correspondent bank that took care of financing them, and this appealed to me very strongly.

Mr. MCDONALD. Thank you.

The CHAIRMAN. I assume Mr. Gifford desires to have you express your views with reference to that.

Mr. MCDONALD. My views, Mr. Gifford, were expressed yesterday to the effect that I can see, of course, how a great many people are

benefited by the loans, the personal loans made to people irrespective of their financial position in regard to mortgages. There are a great many people who are entitled to loans and the automobile people, for instance, have recognized that fact, and have developed a tremendous industry on the basis of selling their cars on a time-payment basis. They do not ask anybody to guarantee those loans. I feel that the same thing is true of these loans. The banks are amply able to investigate their securities and they have had 5 or 6 years of experience with these loans under F. H. A. guidance.

The original reason for the Government in guaranteeing these loans was because so many lending institutions were without experience in handling this type of loan, and with the exception of a few finance companies they did not know with what degree of safety they could make this type of loan. So, it was decided that the Government should go ahead and guarantee them up to 20 percent in order to induce them to go into the business. At that time it was quite necessary, and I think had a very wholesome effect in the emergency. Well, now, 5 years have passed and our banks and other lending institutions, finance companies, merchandising companies, and so forth, have had all of this experience. They have developed a tremendous volume of business which to date has cost them no money. They have made a profit out of it through merchandising their products, and it seems to me that they ought to be able to go along after this without help from the Government.

Mr. GIFFORD. You opposed it 2 years ago?

Mr. MCDONALD. I opposed it a year ago. I feel that there are certain things that the Government ought to get out of, and that there is no reason why the Government should be coddling one sort of an industry as against another. If you are going to continue title I for another year or two, why not continue it forever?

Mr. GIFFORD. It has been an aid and an incentive to business, I realize that.

Mr. MCDONALD. My point is we have shown here that we have built up the business by the statistics presented. I was talking to a very prominent San Francisco banker not long ago and he said, "We have gone into these mall loans in a big way, and we find them a valuable adjunct to our business. We never would have done it without that experience the Federal Government gave us."

Mr. GIFFORD. Will 1 percent cover the amount of your losses on these loans, Mr. McDonald?

Mr. MCDONALD. No, sir, it will not, on those original loans. I testified here yesterday that I thought the way the F. H. A. was conducting title I with the last renewal, and that was last year, as near as I can tell we will get around 1 to 1½ percent loss. On the original commitments that were made, the net loss after we are through making adjustment of claims may be reduced to around 2½ percent.

Mr. GIFFORD. We recognize that we are speaking of our own local conditions.

Mr. MCDONALD. Do you mean in New England?

Mr. GIFFORD. Yes. The people of my section prefer to have title I continued.

Mr. MCDONALD. Of course, you come from a section of the country that is radically different from the rest of the country. Title II is

the large volume of the work of the Federal Housing Administration. We did a gross business last year of over $1,300,000,000, almost $1,010,000,000 of small-home mortgage insurance under title II.

Mr. GIFFORD. The business done under title II was a small amount in my section.

Mr. MCDONALD. Of course, that is true. New England is quite different from some other parts of the country. It is not growing as rapidly, for instance, as some other parts of the country, and, in fact, there is a decrease in population in some parts of it. Also, the houses built in New England are built much more substantially and they last a great deal longer. There is not the necessity for new homes there that there is in some other areas, and, on top of all of that you have a tremendous amount of money in New England, especially in the savings banks which are looking for investments, and which are very glad to get first mortgages.

Mr. GIFFORD. Yes; I was in the real-estate business for 30 years, and I ought to understand. But we seem to be unable to take advantage of title II.

Mr. MCDONALD. It might be of interest to know that some of the New England savings banks, the Burlington Savings Bank is soliciting F. H. A. loans all over the United States.

Mr. GIFFORD. I had a piece of property recently for which I agreed to pay $7,000. $2,500 was all the savings bank would approve. That conservatism now prevails.

Mr. MCDONALD. Of course, I do not know anything about that.

Mr. GIFFORD. I am quite sure you realize the reluctance of the banks in my section. It is due to the red tape and constant annoyance and difficulty with these loans, and they do not want to be annoyed with them. Is that not right?

Mr. MCDONALD. No; I do not think it is right, because we would not be doing the business if it were right. One of your largest life-insurance companies in New England has purchased over $26,000,000 worth of F. H. A. loans from several distant points, as far as California.

Mr. GIFFORD. Yes; I read of that. I sometimes wish we could get the spirit of Los Angeles up in New England.

Mr. MCDONALD. No. I say this is a New England life-insurance company which is buying them in other parts of the country. Maybe they like real-estate loans in other parts of the country better than they like them at home.

Mr. GIFFORD. I have tried to arouse interest in our banks in title II.

Mr. MCDONALD. They buy them in Florida and Texas.

I think Dr. Fisher would like to make a brief statement.

The CHAIRMAN. I have just one question before you leave. You spoke of charging a fee for insurance under title I, and you suggested a fee of 1 percent?

Mr. MCDONALD. Yes, sir.

The CHAIRMAN. Do you think the assessment of 1 percent will afford ample protection against losses?

Mr. MCDONALD. No, sir. I think the losses would be in excess of 1 percent. You mean 1 percent per annum?

The CHAIRMAN. Yes.

Mr. SPENCE. Would that include complete coverage as under title II?

Mr. McDONALD. It is exactly the same coverage they have now, Mr. Spence. For instance, an institution with any volume of business, even though the insurance is only 10 percent, has 100-percent coverage because the loss is on the aggregate amount insured and not the individual loss.

Mr. SPENCE. Yes; the accumulated insurance it carries protects it against all losses?

Mr. McDONALD. Yes, sir.

Mr. SPENCE. Would you write into the contract of insurance 10 percent, or would you write into the contract of insurance the entire coverage of the mortgage?

Mr. McDONALD. The meaning of that would be to make title I insurance as it is now, and simply charge the lending institution a 1-percent premium.

Mr. SPENCE. Until a bank accumulates cash reserve on the accumulated loans of 10 percent they may sustain a loss?

Mr. McDONALD. Yes.

Mr. SPENCE. What has become of all of this accumulated cash reserve?

Mr. McDONALD. Those reserves to loans made under each act. They expire with the various acts except for loans made during the period the act was in force. The first lot expired 2 years ago when the act expired, and last year they expired again.

Mr. SPENCE. My thought was that if a bank was going to pay 1 percent for the insurance they could probably have a pretty good argument why you should insure them for the full amount of the mortgage, as you insure under title II?

Mr. McDONALD. I see what you mean; I had not thought of that.

Mr. GIFFORD. You say the life-insurance companies favor these insured mortgages?

Mr. McDONALD. Yes, sir.

Mr. GIFFORD. I can well understand that they would. The annoyance of placing these mortgages, the supervision and the risk sometimes taken with contractors, is all done away with and is completed when the life-insurance companies take over the mortgage. The banks express their annoyance with the handling of them, and with trying to carry out the multiplicity of instructions. That has been the basis of their unwillingness to handle them. I can understand that when everything is completed and accepted, then the life-insurance companies take them, but if the life-insurance companies had to perform all of the services and run the risks it would be a different matter, would it not?

Mr. McDONALD. Yes. Of course, that is the reason, Mr. Congressman, why even with Government insurance and a 5-percent rate it has not heretofore been considered excessive because there is a lot of annoyance in making mortgages which have to be collected every month. A man has to come in every month and make his payments, and so forth. However, some banks look upon that as a way of building up their clientele. They think it is a good thing to have people coming in every month and making small payments.

Mr. JOHNSON. What loss have you sustained under title II, Mr. McDonald?

Mr. McDONALD. We have accepted after foreclosure 435 properties, of which we have sold 232, and on which we have taken a loss of $160,000.

Mr. JOHNSON. That is your loss under title II?

Mr. McDONALD. Yes, sir.

Mr. JOHNSON. What percentage would it run?

Mr. McDONALD. I haven't that figure.

Dr. FISHER. On a total of $1,300,000,000 insurance, that is twelve one-thousandths of 1 percent.

Mr. McDONALD. Dr. Fisher would like to make a few additions to his remarks, Mr. Chairman.

Mr. WILLIAMS. Mr. McDonald, unless there is someone else who is familiar with the practical operations, especially with reference to sections 207 and 210, I would like to ask you some further questions.

Mr. McDONALD. Mr. Colean is familiar with that, and I will ask him to answer your questions if it is agreeable.

Mr. WILLIAMS. All right.

Mr. McDONALD. Mr. Colean, Mr. Williams wants to ask you some questions.

Mr. WILLIAMS. I want to clear up some things about it in my own mind. I do not want to interfere with the order of the presentation of the testimony here.

The CHAIRMAN. Do that right now, unless there are some further questions of Mr. McDonald.

STATEMENT OF M. L. COLEAN, ASSISTANT ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION

Mr. WILLIAMS. I understand you are familiar with the practical operations of the various phases of this insurance?

Mr. COLEAN. I am, sir, so far as they concern the Federal Housing Administration.

Mr. WILLIAMS. Yes, I mean as applied to this act.

Mr. COLEAN. Yes, sir.

Mr. WILLIAMS. Under section 203 insurance is issued on present structures, or those that are being constructed?

Mr. COLEAN. That is correct; yes, sir.

Mr. WILLIAMS. And the percentage of that insurance runs about 30–70 at the present time, as I understood from Mr. McDonald; is that correct?

Mr. COLEAN. Yes, sir; I understand so.

Mr. WILLIAMS. Just describe the procedure by which I could get insurance if I had a building that I wanted to insure, a present structure, an existing structure.

Mr. COLEAN. You mean a small mortgage?

Mr. WILLIAMS. Yes.

Mr. COLEAN. My part of the work is with the large mortgages, Mr. Williams.

Mr. WILLIAMS. All right, leave that out for the present, and let us go to section 207.

Mr. COLEAN. Yes, sir.

Mr. WILLIAMS. That is your particular field?

Mr. COLEAN. Yes, sir; that is my field.

Mr. WILLIAMS. And to what extent do you insure under that provision?

Mr. COLEAN. We have premium-paying mortgages in the amount of about $76,000,000 worth today.

Mr. WILLIAMS. What does it cover and, generally, what is it?

Mr. COLEAN. Those are on apartment structures of various types in about 29 States and the District of Columbia.

Mr. WILLIAMS. Who owns them?

Mr. COLEAN. They are owned, or the large part of them are owned, by limited-dividend corporations set up in accordance with the regulations established by this act.

Mr. WILLIAMS. Are any of them State or municipally or nationally owned?

Mr. COLEAN. We have three of them that are owned by public authorities. All of the rest of them are owned by private limited-dividend corporations.

Mr. WILLIAMS. What do you mean by public authorities?

Mr. COLEN. Authorities set up under State law for the purpose of owning and operating housing properties. They are local bodies like a public-utilities board, or something of that sort.

Mr. WILLIAMS. Have you incurred any losses under that provision so far?

Mr. COLEAN. No, sir; we have not had any losses under either 207 or 210.

Mr. WILLIAMS. Have you been compelled to take over any of those properties?

Mr. COLEAN. No, sir; we have not yet.

Mr. WILLIAMS. Are you now threatened with taking any of them over?

Mr. COLEAN. No, sir. For the most part they are going along pretty well. I expect we will have a loss before we get through with them, naturally.

Mr. WILLIAMS. Those buildings are primarily designed to furnish rent to low-income groups, are they not?

Mr. COLEAN. There is no provision in the act as to what particular class of people these buildings should be designed for. As a matter of safety we have endeavored only to operate in ranges where the rents were moderate, and there were a good many people in the communities to fill the buildings up.

Mr. WILLIAMS. In general, what is the rent in those buildings?

Mr. COLEAN. Our average rental probably falls somewhere around $45 per month per unit. That is, taking the country as a whole, the more expensive ones in New York City, and the cheaper ones in other places.

Mr. WILLIAMS. A unit would be about three or four rooms?

Mr. COLEAN. The average is a fraction under four rooms, but the normal unit, I should say, is a one-bedroom or a two-bedroom unit, with living room, kitchen, and other facilities.

Mr. WILLIAMS. Who finances those buildings?

Mr. COLEAN. By and large they have been principally financed by the large life-insurance companies, and a few of them have been financed by savings banks, particularly in New York, and a few by the Federal National Mortgage Association.

Mr. WILLIAMS. Who manages them now?

Mr. COLEAN. They are managed by the owning corporations.

Mr. WILLIAMS. That is usually some kind of a public or a limited-dividend corporation?

Mr. COLEAN. It is usually a limited-dividend corporation, of course, subject to our supervision at all times.

Mr. WILLIAMS. And you keep men on the job in those apartments all the time to supervise them?

Mr. COLEAN. No, sir; we do not, but we have a member on their board of directors, and we receive monthly reports from them, and annual audits, and so forth, which gives us an opportunity to keep in close touch with what is going on and what they are doing.

Mr. WILLIAMS. To what extent have those buildings been occupied by tenants?

Mr. COLEAN. Well, in most cases the properties have been very successful and attained 100-percent occupancy within a fairly short time after their completion.

Mr. WILLIAMS. Have there been any complaints in the localities where those buildings have been erected about causing competition with apartments that have been constructed and financed by private capital?

Mr. COLEAN. These buildings have no other kind of capital in them but private capital, but at times there are a few situations where the competition may have been keener than in other places, where there have been complaints from owners of competing properties or properties which they thought would be competitive.

Mr. WILLIAMS. What is your procedure under section 210?

Mr. COLEAN. The procedure under section 210 is exactly the same as it is under section 207. The purpose of section 210 was to provide a little simpler form of operation for smaller properties, where the corporation form of supervision, and so forth, was felt to be too cumbersome.

Mr. WILLIAMS. Sections 207 and 210 apply only to new structures?

Mr. COLEAN. Yes, sir; that is correct.

Mr. WILLIAMS. There has been no insurance of existing structures, and there can be none under either one of those sections?

Mr. COLEAN. That is correct, as the act now stands. Under the act before it was amended we could insure them, but there was no specific reference to either new or old, and we assumed we could insure first loans on old buildings. We have two projects which were actually built before they were financed with insured mortgages.

Mr. WILLIAMS. That was under old section 207?

Mr. COLEAN. Yes, sir; that is correct.

Mr. WILLIAMS. What limitations are there with reference to the number of dwellings and the value of the properties under section 210?

Mr. COLEAN. The largest mortgage that we can insure under section 210 is $200,000, which must not be greater than a cost of $1,150 per room.

Mr. WILLIAMS. And what is the smallest?

Mr. COLEAN. It can go down to $16,000.

Mr. WILLIAMS. That fits on to section 203?

Mr. COLEAN. That is right. It begins where section 203 leaves off and goes up to $200,000, and section 207 presumably begins at the same place, and goes on up to $5,000,000.

Mr. WILLIAMS. This provides for the building of multiple dwellings?

Mr. COLEAN. That is right. Of course, it can be group houses for rent, but we have only two or three cases where that type of rental property is used.

Mr. WILLIAMS. How are those buildings constructed or started?

Mr. COLEAN. You mean how do we handle our examination in connection with them?

Mr. WILLIAMS. Yes; who institutes the construction of these buildings?

Mr. COLEAN. The corporation makes application to us for the insurance of a mortgage, along with the financial institution willing to make the mortgage, and they also submit a statement of their financial set-up and standing.

Mr. WILLIAMS. In general, who are the owning corporations?

Mr. COLEAN. The owning corporations are largely composed of landowners, builders, architects, developers, and other people of experience in the real-estate business.

Mr. WILLIAMS. It might simply be a contractor, might it not, who wants to lay out a subdivision and build on it?

Mr. COLEAN. Yes; it might be.

Mr. WILLIAMS. Suppose a corporation or an individual wants to engage in that kind of a business, what is the procedure by which they secure insurance in your corporation?

Mr. COLEAN. With a lending institution they make application to us, presenting their whole plans and financial set-up. The proposed project is appraised as we would the small mortgages, and, if the project sets up properly from a financial and physical point of view, we issue them a commitment. Then we insure the mortgage at the time construction begins. That is one difference between this type of operation and the operations under section 203. We actually insure advances during the construction period.

Mr. WILLIAMS. Of course you supervise them during construction?

Mr. COLEAN. Yes, sir; we supervise them while construction is going on. We have resident superintendents on the job at all times during the construction of these developments.

Mr. WILLIAMS. Under that provision how much new construction has gone on?

Mr. COLEAN. As I say, our total premium-paying mortgages amount to $76,000,000 now, which would probably actually be something near, oh, say, $85,000,000 worth of construction.

Mr. WILLIAMS. Do you have anything to do with supervising those buildings after they are completed, with reference to the rental of them?

Mr. COLEAN. Yes. There is very close supervision of all phases of the management and the provisions that are written into the charter of this corporation. The corporation cannot charge more than a certain rent without the approval of the Administrator. It cannot pay a dividend beyond a certain amount without the approval of the Administrator and without having set up certain other specified reserves. Their books must be subject to inspection by the Administrator, and they must make regular reports as to their occupancy and their financial audits to the Administrator, and, in addition, we have

to have a member on the board of directors who meets with them at all regular meetings. We also have a provision whereby, in case of default, the special preferred stock issued to the Administrator acquires full voting rights and gives him immediate control of the corporation.

Mr. WILLIAMS. That is just a nominal amount, is it not?

Mr. COLEAN. That is correct.

Mr. WILLIAMS. How do those units rent; what is the rental of them?

Mr. COLEAN. The amount of the rental?

Mr. WILLIAMS. Yes.

Mr. COLEAN. There is a great variation in the rentals. As I say, in New York the rentals run up as high as $60 or $70 a unit. We have, on the other hand, in a small New England town a project where the rentals are as low as about $14 a unit. That is in Chicopee Falls. You may be familiar with that.

Mr. WILLIAMS. Then, in some cases, you have been able to furnish rental to the lower-income groups?

Mr. COLEAN. Yes, sir; we have. We are working toward that end in every way we can, trying to train and educate builders to techniques necessary to get into that field.

Mr. WILLIAMS. Have you had any trouble, within the limits prescribed by the law, with reference to the cost per room?

Mr. COLEAN. None whatever.

Mr. WILLIAMS. Have you had any defaults under section 210?

Mr. COLEAN. No, sir; not to date.

Mr. WILLIAMS. Have those buildings been all pretty well occupied by tenants from the time they have been constructed?

Mr. COLEAN. There has been a varying degree of success naturally. The most outstanding successes have undoubtedly been the projects right around Washington where the tenants were ready to move in before they were finished. In other places it has taken a longer time to get occupancy, but, for the most part, the occupancy has been fairly rapid, which indicates we have been able to achieve, at least, the objective of aiding in the construction of buildings where they are needed.

Mr. WILLIAMS. Have there been many projects submitted to you that have been turned down—rejected entirely?

Mr. COLEAN. Yes; I suppose, over the 4-year period that we have operated, our rejections would run 80 percent of the total amount of projects examined.

Mr. WILLIAMS. You mean that 8 out of 10 have been rejected?

Mr. COLEAN. That is correct.

Mr. WILLIAMS. What has been the primary reason for that?

Mr. COLEAN. In the early days a considerable amount of it was due to lack of available mortgage money. However, that is no longer a problem. The second problem was equity money. That is, the money to make up the difference between the mortgage proceeds and the cost of getting the thing built. Then there are minor difficulties which come up, title problems, and investigation items of that sort which have caused some of them to be abandoned.

Mr. WILLIAMS. In those buildings under sections 210 and 207 the equity of the owner is supposed to be 20 percent?

Mr. COLEAN. The maximum mortgage we can insure is an 80-percent mortgage under the law.

Mr. SPENCE. What are the qualifications that a lending institution must have to be approved by the administration?

Mr. COLEAN. To make one of these large mortgages?

Mr. SPENCE. Yes.

Mr. COLEAN. Well, it has to be an institution that is legally qualified to make such a loan, that has sufficient capital to make such a loan.

Mr. SPENCE. Do you investigate their reputation in the community where they do business?

Mr. COLEAN. We do not have much of a problem of that sort, because this lending is principally confined to the larger life insurance companies, about whose qualifications there is no question.

Mr. SPENCE. It is not confined to them in the law. It says financial institutions of every character. I wondered if you did not make some investigation of the standing of the financial institutions in the communities where they operate?

Mr. COLEAN. Unless it is a large life insurance company, whose position is already known, or unless it is an institution already approved under section 203, we would make a very careful investigation. We have not had any cases I know of where we have dealt with institutions not already approved except in the case of one or two of the larger life insurance companies.

Mr. SPENCE. Under the other sections of the law you deal with the smaller financial institutions?

Mr. COLEAN. Yes, sir.

Mr. SPENCE. Do you make investigation of those institutions before approving them?

Mr. CAHILL. Yes. Under section 203, Congressman, we have in our regulations the requirement that all institutions up to a certain class must be under the supervision of some governmental agency. Then we provide for institutions which are not under Government agencies by requiring them to have a minimum capital set-up of $100,000. In those instances they must submit to us prior to approval a financial statement made and approved by an outside auditor satisfactory to the Administrator. They are subject to examination each year and to any other examinations we wish to make. As to new institutions which are under Federal supervision or State supervision we consider that satisfactory evidence of proper examination.

Mr. SPENCE. Do you make your own independent examinations?

Mr. CAHILL. No; we require that they submit an audit made by an outside certified public accountant, an auditor satisfactory to the Administrator. If that is not satisfactory evidence of their fitness we make it ourselves, and we are privileged, under our regulations at any time to require a statement, or make any examination that is necessary.

Mr. GIFFORD. May I continue there?

Mr. SPENCE. Yes.

Mr. GIFFORD. It has been brought out heretofore that there are several very grave dangers in the lack of full investigation of these properties. Do you have much trouble in the appraisal of land values, or do you look into that carefully to see whether or not they are swollen appraisals, or is the matter of the amount you may get from the rentals of those properties the most persuasive factor?

Mr. COLEAN. You are speaking now of the small properties or the large-scale operations?

Mr. GIFFORD. The large-scale operations. It has been brought out heretofore that under an 80-percent mortgage the appraisal on the land, the figures of the contractor, and the price to be paid to the architect could easily be swollen, and then they could quietly agree to take 20 percent off, and it could never be detected, probably, in your investigations. Of course, in these very large operations it would still seem that perhaps you could not always detect that there were discounts to cover that 20 percent. It is a very easy matter to get the bill of the architect and of anybody else presented and receipted and take a discount of 20 percent less, unknown to anyone.

Mr. COLEAN. As you well know, we are dealing with a business in which there are one or two tricks.

Mr. GIFFORD. Yes.

Mr. COLEAN. I have been in it fairly long, too, myself. I am under no illusions as to the type of thing that we have to look for. We try to examine these just as carefully as possible. We have our costs checked twice, both by the original receipts and the application in our field office, and again by the Washington office when they come through here.

Mr. GIFFORD. The answer is that the amount of rentals really is the most persuasive factor?

Mr. COLEAN. We check it from the cost side, and we check it from the rental side, and if the amount that would be allowable on the basis of the income would not support the costs, we would have to hold it down below that, anyway.

Mr. GIFFORD. I can readily see that your investigators on the actual cost of the construction could be very effective. They could be, and they ought to be. But in setting up one of these things you could not prevent the swollen values placed on the land and these other agreements as suggested, could you?

Mr. COLEAN. Well, I cannot say we could positively prevent them, but I think that by and large an independent appraisal of the projects that have been completed, I am confident would result in higher valuations than we had originally given them.

Mr. GIFFORD. Well, the life-insurance companies take them after they are insured, and because they are insured, of course.

Mr. COLEAN. Well, they make their own investigations; their own appraisals of them.

Mr. GIFFORD. Did you see any clipping about the St. Louis incident where the land was twice sold and carried in the appraisal submitted for an insured mortgage at an increase of 300 percent? Did you see any statement about that?

Mr. COLEAN. Yes; I am familiar with that case.

Mr. GIFFORD. I will not enlarge upon that, but it engaged my curiosity, and I wondered if you could possibly help prevent such padding of values. I want to ask you the question again: The rentals to be received and the income thereon is the most persuasive argument, is it not?

Mr. COLEAN. No; I would not say the most persuasive. It is one we do put great weight on, and one we endeavor to investigate very carefully. Our research division, for instance, is constantly checking housing, getting the general situation in these different communities

so that we can make fairly valid estimates of what the rental income will be.

Mr. GIFFORD. You are making these mortgages to run for a long time, and undesirable conditions arise in communities which at times disturb values.

Mr. COLEAN. That is quite true.

Mr. GIFFORD. I am simply saying there are some grave dangers in these very large scale operations.

Mr. COLEAN. We recognize that, and that is one reason why we apply as close supervision as we do to these corporations. For instance, we make them start to establish their reserve for repairs right out of their first year's rents. We make them carry at least a half year's debt service in reserve. We also make them carry a certain amount of cash capital, and, as I said, we limit their dividends, so that any excess earnings can have no other place to go but toward the payment of the mortgage in any good years.

Mr. GIFFORD. I trust you see the force of my question.

Mr. COLEAN. I certainly do, and it is a problem we are very well aware of.

Mr. SIMPSON. You begin your commitment to guarantee just as soon as you begin construction?

Mr. COLEAN. Our mortgage goes into effect in the large cases where construction starts.

Mr. SIMPSON. Is there a contract for the construction at that time?

Mr. COLEAN. Yes.

Mr. SIMPSON. You have not yet run into any situations where those who were doing the work had to have additional money, and had to make a change in plans, and so forth, and if so, what would you do in that situation?

Mr. COLEAN. We would require the owners to put up the extra money.

Mr. SIMPSON. Suppose they could not do it, would you be obligated for that amount?

Mr. COLEAN. Our contracts are all covered with construction bonds as a matter of regulation now, so that I think we are well protected. We usually require a contingency fund to be set up and other cash equities established in a bank with the Administrator's joint signature required for withdrawals to cover that type of thing.

The CHAIRMAN. Do you not feel that the criminal provisions of the law protect you against attempted fraud?

Mr. COLEAN. Yes, sir; I think they do.

The CHAIRMAN. They afford valuable protection in connection with all of your transactions?

Mr. COLEAN. Yes, sir.

The CHAIRMAN. As a rule the average man has a fear of violating a Federal criminal law.

Mr. GIFFORD. Is it fraud when the architect takes a chance and says, "If this goes through and you get your loan I will discount it at 20 percent?" Would you not call it fraud?

The CHAIRMAN. I do not know about that.

Mr. GIFFORD. Well, that is the point, and yet it takes 20 percent off the value of these insured mortgages.

Mr. SPENCE. What effect do the United States Housing Authority's activities have on your organization?

Mr. COLEAN. Our organization and the United States Housing Authority, I think, have been working very harmoniously. We have had no conflict or difficulties of any sort.

Mr. SPENCE. Your functions and their functions overlap to a certain extent, do they not?

Mr. COLEAN. No, sir; not to any appreciable extent. I think we have been working along parallel lines, but with no difficulty as to overlapping..

Mr. SPENCE. Do you not attempt to furnish low-rent apartment houses, just as the United States Housing Authority attempts to do?

Mr. COLEAN. We try to encourage private builders to build just as low-rental buildings as possible without any subsidy, and the Housing Authority begins, presumably, where we leave off, or at a considerable stage below where we are leaving off at the present time.

Mr. SPENCE. They are in a field that you are unable to enter?

Mr. COLEAN. Yes; I think so, as a matter of general practice.

Mr. MILLER. Do you consider that the primary purpose of this legislation is to aid builders, developers, insurance companies, and financial institutions, or do you consider the real purpose is to aid those who are in need of low-price housing? I realize that question is rather broad.

Mr. COLEAN. The question of the purpose of the act is covered in the preamble to the act.

Mr. MILLER. Yes; but undoubtedly there are definite purposes in the act, and I am wondering whether your interpretation and the Administration's interpretation of the purposes of the act is to aid financial institutions, insurance companies, and developers or to aid those who are in need of low-price housing?

Mr. COLEAN. The purpose of the act, as I stated, and as I think we have tried to be faithful to, is to encourage improvement in housing standards and conditions, and to provide a system of mortgage insurance. We have taken the stand that certainly where housing was not needed by any given group in a community, there was no point in encouraging builders in that section to build unnecessary structures.

Mr. WOLCOTT. One of the purposes of the act, originally, was to take up the slack in unemployment in building trades.

Mr. COLEAN. That undoubtedly was one of the purposes, Mr. Wolcott, and I think there were many things it was hoped it would accomplish. Is that all, Mr. Chairman?

The CHAIRMAN. I think so. I want to ask Mr. E. L. Ostendorf, president of the National Association of Real Estate Boards, to discuss the bill.

STATEMENT OF E. L. OSTENDORF, PRESIDENT, NATIONAL ASSOCIATION OF REAL ESTATE BOARDS, CLEVELAND, OHIO

Mr. OSTENDORF. Mr. Chairman, gentlemen of the committee, my name is E. L. Ostendorf, president of the National Association of Real Estate Boards.

Our association is made up of some 458 boards in many States throughout this country, and also those boards comprise some 14,000 or more members, individual and firm members.

It is a pleasure for me to appear before you in behalf of the extension of this act, because our association has been outspoken in its belief that this act has done more for the home owners than any other piece of legislation that this Government has ever enacted. After all, I think that is one of the things that we are interested in. It has done a lot to stimulate activity in building, and I think that even in view of the fact that 1938 was a poor business year, that in 1938 building activity has advanced.

I believe if you pass this law in all of its phases, or an extension of this law in all of its phases, it will have such a far-reaching effect that you will probably see a further increase of some 20 or 25 percent in building this year.

It is necessary that you pass it just as quickly as possible, so that we will make use of the spring and summer and be able to take care of that business which is at hand.

It is also, I believe, essential that you continue the insurance on existing properties. Probably 50 percent of the sales take place on new homes are to individuals or families who now own homes, and those sales must also be properly financed.

I do not know what more I can add on this subject. I think you all realize the benefits derived, and I think for the benefit of the Congressman here who asked the question as to why this act or legislation was passed, I should say it was not so much for the increase of building, but for the increase in home ownership, which, I believe, is the outstanding thing that is needed in this country.

Mr. WOLCOTT. Mr. Ostendorf, will you discuss for us, if you care to, what effect this program has had on private investment in real estate?

Mr. OSTENDORF. It has had a very far-reaching effect, as I see it. It has done more than any one other thing that I know of. In my own State I checked it, and since 1936 the increase in home ownership has been about 2 percent, a little less than 2 percent.

Mr. WOLCOTT. I did not have home ownership in mind when I asked the question. When I asked the question I had real estate in mind. Has there been an increase or a decrease in real-estate investments and activity as a result of this program?

Mr. OSTENDORF. Yes; I think there has been a very noticeable increase.

Mr. WOLCOTT. Have you any figures on that?

Mr. OSTENDORF. No; I have not. I do not know whether Mr. Nelson has any figures on that or not.

Mr. WOLCOTT. What I wanted to bring out was that we have had some criticism, that because of F. H. A. there has been no desire on the part of private individuals to own real-estate mortgages. The reason given is that if they have to foreclose on the mortgage they find no market for their property, and this foreclosed property which does not have F. H. A. insurance on it is a drug on the real-estate market. That is what I want to cover.

Mr. OSTENDORF. I believe that F. H. A. mortgages are an asset to any property.

Mr. WOLCOTT. What is that, Mr. Ostendorf?

Mr. OSTENDORF. I say I believe that F. H. A. mortgages are an asset to any property.

Mr. WOLCOTT. I do not think you quite understand my question.

Mr. OSTENDORF. No; I did not get your question.

Mr. WOLCOTT. Has the Federal Housing Administration effected the investment by private individuals in real-estate mortgages?

Mr. OSTENDORF. No, sir; it has not.

Mr. WOLCOTT. I know it has to some extent. I wish you would not dismiss the question by shaking your head. I know it has had some effect, one way or the other, either favorably or unfavorably.

Mr. OSTENDORF. I think if any thing it is favorable. We were unable to get any mortgages on properties before that, if that is your question——

Mr. WOLCOTT. The point is if a private individual takes a mortgage on a private home, and it is not insured by the F. H. A., it is rather difficult for him to realize on his investment on foreclosure due to the fact that it is old property and a person can come in and get a new home under an F. H. A. insured loan, getting probably a better property for the same money than he could for the amount of the mortgage on the old property. We have been told, and I want to find out whether it is true, that this property is a drug on the real-estate market.

Mr. OSTENDORF. Well, I believe that there are today a great many people that are still living in the past, if this answers your question, Mr. Congressman. If the values have decreased, naturally there is depreciation and obsolescence that takes place in properties, and it is harder to sell an old property than it is to sell a new property. That is natural. Maybe I do not understand your question, or just what you mean.

Mr. WOLCOTT. Well, here is a $5,000 home upon which you hold a $4,000 mortgage.

Mr. OSTENDORF. Yes, sir.

Mr. WOLCOTT. You have to foreclose.

Mr. OSTENDORF. Yes, sir.

Mr. WOLCOTT. And you get title to the property.

Mr. OSTENDORF. Yes, sir.

Mr. WOLCOTT. And you try to resell that property.

Mr. OSTENDORF. Yes, sir.

Mr. WOLCOTT. You, as an individual, cannot get an F. H. A. insured mortgage, or the person to whom you sell cannot get an insured mortgage.

Mr. OSTENDORF. Yes, sir.

Mr. WOLCOTT. I want to buy a home, and I want to pay not more than $5,000 for it. Should I buy this old property on which you have foreclosed, and pay $5,000 for it instead of getting a brand-new modern home for $5,000 under the F. H. A. program?

Mr. OSTENDORF. I think it is only natural that you would buy a new home, if it were just as good.

Mr. WOLCOTT. That is the point. Now, what effect has it had on this old property?

Mr. OSTENDORF. I think it probably has brought the old property down to what its value really is. I think a good many of our old properties have a fictitious value. If you can build a new house for the same price that they are asking for an old house, then I think the price you placed on that old house must be out of reason.

Mr. WOLCOTT. Now, following that up and getting back to my original question, what effect has the F. H. A. program had because of this situation we have been discussing on the investment by private individuals in real-estate mortgages?

Mr. OSTENDORF. I believe there is an increased demand for real-estate mortgages by private individuals.

Mr. WOLCOTT. You believe there is an increased demand?

Mr. OSTENDORF. I believe there is.

Mr. WOLCOTT. Do you have some figures on that that you could present to us?

Mr. OSTENDORF. I have not any statistics, but I believe that is true. Mr. Nelson, have we any statistics to prove that there is an increase in investment in mortgages by private individuals?

Mr. NELSON (National Association of Real Estate Boards, Cleveland, Ohio). The Home Owners' Loan Bank published some figures sometime ago showing that at the present time the largest volume of mortgages is held by individuals. Next to that comes the building and loan associations or the insurance companies. So that the individual investor in mortgages has not been injured by the F. H. A. legislation.

Mr. WOLCOTT. We do not know unless we have some figures by which we might compare the number held 5 years ago with those held at this time. The mere fact that private individuals still hold the greater part of the mortgage paper in the United States today means nothing unless we have something with which to compare it. That does not give us any information. What I am getting at is, do you think we should continue the insurance of existing mortgages?

Mr. OSTENDORF. You mean mortgages on existing properties?

Mr. WOLCOTT. Existing mortgages which were not primarily F. H. A. insured mortgages.

Mr. OSTENDORF. I just do not quite understand the question.

Mr. WOLCOTT. Mortgages which were not in the first instance F. H. A. mortgages.

Mr. OSTENDORF. I believe you ought to continue your mortgaging of existing properties.

Mr. WOLCOTT. You believe that the F. H. A. should continue the policy of refinancing old mortgages?

Mr. OSTENDORF. Financing old property?

Mr. WOLCOTT. Insuring old mortgages.

Mr. OSTENDORF. Yes, sir.

Mr. WOLCOTT. Why?

Mr. OSTENDORF. Because I think in order to sell a new house, that 50 percent of the buyers of new houses are owners of old houses. Now, they have got to sell those old houses, and they have to have help in selling the old houses.

Mr. WOLCOTT. Now, you are getting right back to my original question: If it is necessary for us to continue this activity in order to unload old mortgages, then there has been some effect evidenced by the F. H. A. program on old mortgages, has there not?

Mr. OSTENDORF. Well, 80-percent loans are not easy to get from individual investors.

Mr. WOLCOTT. I know it. Isn't that the asnswer to it today, that because 80-percent loans are not easy to get there has been a material effect upon investment in mortgages by private individuals?

Mr. OSTENDORF. It is true, but as far as statistics go, I have not any proof of it, but I have read it, although I have not any proof that I can present to you today, that there are just as many holders, and I know today there are a great many individuals that are taking them, but they seek to get them on a 50-percent or a 60-percent basis, and not on an 80-percent basis.

Mr. WOLCOTT. Why should a person buy a home in good condition on a 50-percent basis when he can get an 80-percent insured mortgage, insured by the F. H. A.?

Mr. OSTENDORF. Yes; but he cannot buy the same value, in my estimation in new construction that he can buy in old construction.

Mr. WOLCOTT. Sure, that is true, but what I am trying to develop is has this had any effect upon it? I do not beelieve that this committee should accept these beliefs on the part of your people without figures and facts to bear their beliefs out. I know last year I got myself into a terrible hole by accepting the belief of certain bankers that the banks would not make loans on this property on 80- or 90-percent insured mortgages. I have learned, much to my humiliation, although I have been gratified to know that they were wrong, that there has been the biggest volume that they have ever experienced under this new set-up. They were serious and conscientious in stating their beliefs that they would not make loans when they said it. I think you should have some facts and figures to substantiate your beliefs and your statements, because I do not want to get up on the floor of the House and say that there has been no demoralization of the real-estate market by the F. H. A. when I have not something to substantiate it, and I do not want to get up on the floor of the House and say that there has been a demoralization of the real-estate market by the F. H. A. on the basis of assertions which have been made unless I have something to substantiate it.

Mr. OSTENDORF. I shall try to furnish you with that information.

Mr. WOLCOTT. I am not going to conjecture about building operations any more or about the F. H. A. or about what the banks are going to do about it.

Mr. OSTENDORF. I think there has been probably a different feeling of the banks in the last year.

Mr. WOLCOTT. Have you any figures to show that the real-estate market has in any way been demoralized by the operation of the F. H. A. administration?

Mr. OSTENDORF. I can assume by the amount of activity that it has not.

Mr. WOLCOTT. I think, then, we have as much right to assume that the real-estate market has been helped as we have to assume that it has been demoralized.

Mr. OSTENDORF. I think when the members of our organization speak as they do in favor of this act, and are very loud in their praises of it, that you may assume that it has been helped.

Mr. WOLCOTT. You represent whom?

Mr. OSTENDORF. I represent the National Association of Real Estate Boards, which has over 14,000 members, individuals, and firms.

Mr. WOLCOTT. And they have to do, of course, with holding properties and owning properties?

Mr. OSTENDORF. Yes—holding and owning properties through brokers.

Mr. WOLCOTT. They are advocating the passage of this bill?

Mr. OSTENDORF. Yes, sir; they are—very, very vigorously.

Mr. WOLCOTT. From your experience, and when I say "your" I mean collectively the real-estate operators of the United States, you do not think that there has been any demoralization of the real-estate market?

Mr. OSTENDORF. No, sir.

Mr. WOLCOTT. You think that you are in a position to represent them and state that definitely?

Mr. OSTENDORF. Yes, sir; most emphatically.

Mr. WOLCOTT. You would be free to give me what I consider is a complete answer to some propaganda and some statement which has been made that that is true?

Mr. OSTENDORF. I am here speaking in behalf of the passage of this act.

Mr. WOLCOTT. I think you people should know what the situation is.

Mr. JOHNSON. Do you have an opinion as to whether people think all of this act should be continued or some parts of it?

Mr. OSTENDORF. Some of the members of our association in southern California, Florida, and New Jersey, and along the coast, some parts of the coast line of New England are in favor of title I. They have asked that we bring that to the attention of this committee. I do not think the members universally feel the same way about it. We are more interested in number II. That is what we are really interested in, because that covers the entire field, and as far as we are concerned, our membership is more interested in number II than in title I, and we feel certain the members of our national association feel that number I should be continued.

Mr. JOHNSON. You association has taken no official action on it?

Mr. OSTENDORF. Yes; our association has taken official action, and we have asked that the act be extended in all its sections.

Mr. JOHNSON. Including title I?

Mr. OSTENDORF. Yes.

Mr. SPENCE. Do private investors seek these insured mortgages for investment?

Mr. OSTENDORF. Not very much, because I understand under the law they are not allowed to. I think they are mostly in the hands of banks, financial institutions, and building and loan associations.

Mr. SPENCE. Do they not have a tendency to make the assets of the banks liquid——

Mr. OSTENDORF. No, sir.

Mr. SPENCE. Would that not be a desirable investment for the individual?

Mr. OSTENDORF. I think it would be very desirable, but with the money in the financial institutions today it is seeking an outlet for investment, and this is an outlet for it.

Mr. SPENCE. But, you say you do not think the investor is seeking that kind of an investment?

Mr. OSTENDORF. I do not believe he is; no, sir.

Mr. SPENCE. I think that would probably be a means by which more money would go into this activity if the private individual were permitted to buy these mortgages. It would leave a very much greater amount of the assets of the bank which could be devoted to this character of lending.

Mr. OSTENDORF. The individual moves a little more slowly. I think you will find it will not be long before the individual will be in that market.

Mr. SPENCE. What are these mortgages netting the investors?

Mr. OSTENDORF. They are netting 5 percent.

Mr. SPENCE. And they are perfectly good investments?

Mr. OSTENDORF. Excellent; I do not know of anything better.

The CHAIRMAN. Mr. Van Zandt, will you come around, please. Gentlemen, this is Mr. James E. Van Zandt, Congressman from Pennsylvania, and he wants to address the committee. We are very glad to have you with us, Mr. Van Zandt.

STATEMENT OF JAMES E. VAN ZANDT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. VAN ZANDT. Mr. Chairman and gentlemen of the committee, I wanted to appear before the committee to record my interest in behalf of H. R. 3217 and H. R. 2980, which concern extending the privilege of insured mortgages on property under construction. I have introduced these two amendments as a result of the sentiment that prevails in my district, especially among the men in the real-estate business, and the bankers of my district who feel that this is one governmental activity that really helps business in their community, and they ask that the time limit be stricken from the present act so that they may continue to enjoy the bill with the public who are taking advantage of the privileges under the act. That concludes my statement. Thank you, Mr. Chairman an gentlemen of the committee.

The CHAIRMAN. Thank you, Mr. Van Zandt.

The CHAIRMAN. Mr. Joseph E. Hughes, president of the Washington Irving Trust Co., of Tarrytown, N. Y.

STATEMENT OF JOSEPH E. HUGHES, PRESIDENT, WASHINGTON IRVING TRUST CO., TARRYTOWN, N. Y.

Mr. HUGHES. My name is Joseph E. Hughes, president of the Washington Irving Trust Co., of Tarrytown, N. Y.

I desire to take just a minute of your time to say that we have 3,300 F. H. A.-insured mortgages under section 203 of the act, aggregating about $16,000,000, and we have had six foreclosures. We have approximately 26 mortgages in default at the present time, most of which, on checking up, are shown to have been due to temporary illness, and most of them will be cared for and paid up.

Most of the mortgages we have made have been for a period of 25 years during the past year. We believe it is important to have this 25-year period extending in the act, as most people need that amount of time. There will be a great many people eliminated from the benefits of the act if it is reduced to 20 years. In fact, railroad men, policemen, firemen, and others could not qualify under the Federal Housing Administration's rules if the mortgages were reduced to 20 years.

The CHAIRMAN. Thank you, Mr. Hughes.

Mr. Nadelman.

STATEMENT OF MARTIN NADELMAN, CHAIRMAN OF THE BOARD OF GOVERNORS OF THE QUEENS-NASSAU HOME BUILDERS LEAGUE

Mr. NADELMAN. Mr. Chairman and gentlemen of the committee: I am chairman of the board of governors of the Queens-Nassau Home Builders League, the largest building association of its kind in the United States, consisting of owners and 200 active builders. We have been reputed to have built and sold, in the year 1938, 20 percent of all of the new buildings in the United States.

We wish to go on record as being 100 percent in favor of the bill as this committee has it at the present time, and we wish to emphasize the fact that there is one portion of the bill which is very important, we believe; that is old construction—old buildings. Without that cause it would mean in our district, that is, Queens County and Nassau County of the city of New York, it would work a tremendous hardship on new construction, in the refinancing of old homes, homes that people are living in, who choose to change into a new home, they would have to be refinanced, and with this refinancing it would necessitate a new mortgage, and if that were not possible it would mean that new construction would stop, and following that it would mean less employment.

We also wish to emphasize the importance of continuing the 25-year plan of houses up to $6,000. I myself, as a builder, build and sell an average of about 200 houses a year, with a total value of about $1,250,000. Seventy-five percent or 80 percent of these sales are of houses that sell for between $5,500 and $6,000. By this committee's refusal to continue the extension of the 25-year plan, it would mean that my sales as one builder, and the total sales of all of the builders in our community, would drop considerably, which, of course, would mean the loss of building construction and the loss of employment.

Mr. GORE. I notice you say you are 100 percent for the bill as it is now before the committee?

Mr. NADELMAN. Yes, sir; that is right.

Mr. GORE. Do you mean by that that you are opposed to the continuation of title I?

Mr. NADELMAN. Personally I have no interest in this title I at all. My primary interest is in section 203, and our building organization and its members have very little to do with title I. If I misinformed you, I do advise the continuance of the 80-percent mortgage on old buildings and the 25-year period.

Mr. GORE. Then by your stand you do not mean to oppose title I.

Mr. WILLIAMS. You spoke of these old buildings, present structures.

Mr. NADELMAN. Yes, sir.

Mr. WILLIAMS. Who holds those mortgages now?

Mr. NADELMAN. They are held by individuals and savings banks. In our State at the present time we have a moratorium that does not permit the holder of a mortgage to foreclose on it provided the interest and the taxes are paid. If this bill were not extended and the moratorium law went out of effect, just what result would come about? It would necessarily mean that the individual could not get refinancing, and he would be compelled, if he were fortunate enough, to pay the bank, or just drop his house which, of course, would mean selling old houses by the banks in their foreclosures, and, of course, we as builders of new homes would just fold up and they would get rid of them.

Mr. WILLIAMS. What percentage was loaned on these old mortgages?

Mr. NADELMAN. I did not hear you, sir.

Mr. WILLIAMS. As to these old mortgages that are now in existence on these present structures, what percentage of the value of them was loaned in the first place?

Mr. NADELMAN. Fifty or sixty percent of the then value of the property at the time the mortgage was placed.

Mr. WILLIAMS. Are those amortized loans?

Mr. NADELMAN. No, sir.

Mr. WILLIAMS. For what length of time are they?

Mr. NADELMAN. Prior to the F. H. A., 95 percent of the first mortgages ran for a period of 3 years, and we builders took a second mortgage for the balance that ran for a period of 3 to 5 years, and for the balance, it just stays that way, it has been that way for 2 or 3 years on account of the moratorium law. The owner is not required to pay off any of the mortgage.

Mr. WILLIAMS. The builder, then, is holding a second mortgage?

Mr. NADELMAN. That is right.

Mr. WILLIAMS. For what percentage of the value?

Mr. NADELMAN. I would say the percentage of the first and second mortgages would be about 85 percent.

Mr. WILLIAMS. And under this new plan that is proposed if we continued to insure old buildings that would take up the first and second mortgages?

Mr. NADELMAN. Not entirely. With the second mortgage I said it amounted to about 85 percent. If the builder felt inclined, or if the home owner felt inclined to refinance a long-term 20-year mortgage at reduced interest against the second mortgage, carrying 6-percent interest with it, and if the builder or holder of the second mortgage were willing to take a little reduction in his loan it would then be a possibility to give the holder or the owner of the old house a new 20-year mortgage that he could amortize to a point of zero.

Mr. GIFFORD. What does it cost now to foreclose a mortgage in your State?

Mr. NADELMAN. About $350, I believe.

Mr. GIFFORD. It was $500, was it not?

Mr. NADELMAN. It may be that.

Mr. GIFFORD. It is rather a deterrent in foreclosing mortgages in your State.

Mr. NADELMAN. Yes.

The CHAIRMAN. Thank you, Mr. Nadelman.

Gentlemen, I am going to suggest that the committee adjourn, to meet again tomorrow at 11 o'clock. I want to ask the committee to go into executive session for a minute or two with reference to some other legislation that is coming up tomorrow morning.

(Whereupon, at 12:07 p. m., the committee went into executive session.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

FRIDAY, FEBRUARY 17, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 11:30 a. m., pursuant to notice, for further consideration of H. R. 3232, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Brown, Patman, Sacks, Gore, Mills, Martin, Folger, Hlll, Wolcott, Gifford, Luce, Simpson, Johnson, Kean, Sumner.

The CHAIRMAN. The committee will come to order.

Mr. Curtis, a Member of the House, called me this morning and stated he wanted to be heard briefly.

Mr. CURTIS. Yes, sir.

STATEMENT OF HON. CARL T. CURTIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

The CHAIRMAN. Gentlemen, Mr. Curtis has a suggestion that he wants to make to the committee. We would be very glad to have you do so at this time, Mr. Curtis.

Mr. CURTIS. Mr. Chairman and members of the committee, I will not take a great deal of your time, and I just have one suggestion I would like to make. I appear before you to make a suggestion in behalf of the farmers of my territory in reference to the Federal Housing Administration.

As I understand it, the intent of this law is to enable people to build, repair, and improve homes, and thus provide employment for labor. I am also informed that these loans are repaid on a monthly basis. Now, in an agricultural territory such as mine, that practically eliminates the majority of the people from availing themselves of the benefits of these loans. I am referring primarily to the loans for smaller items of repair—painting and the like. If these could be arranged on a semiannual or an annual repayment basis it would help that class of people.

The CHAIRMAN. You would suggest, would you not, Mr. Curtis, that there be carried in the bill a provision that would authorize the Federal Housing Authority to so adjust their loans as to take care of the class of borrowers to which you refer?

Mr. CURTIS. Yes, sir.

The CHAIRMAN. Because they have their cash income at seasonal periods?

Mr. CURTIS. Yes, sir; that is right.

The CHAIRMAN. For instance, in my section of the country the fall is our marketing time. It is something like that with you?

Mr. CURTIS. Yes, sir.

The CHAIRMAN. And you think that they should have authority to adjust maturities on loans so as to accommodate that situation?

Mr. CURTIS. That is exactly what I had in mind, Mr. Chairman.

The CHAIRMAN. I will say to the gentleman that, at my suggestion, a provision of that kind was included in the H. O. L. C. Act, and I think, so far as I am advised, it has proven very satisfactory to the officials of the administration. We are very glad to have your suggestion, Mr. Curtis.

Mr. CURTIS. I believe that if these loans are made available to farmers on semiannual or annual payments, that many farmers and landowners would be benefited. A great many of the farm buildings of my State are in need of painting and repair and this would provide considerable employment. I also believe that farm buildings in general are in need of repair, painting, and things of that sort. Many of the landowners who reside in the towns would be splendid risks. They would avail themselves of these loans, and it would mean considerable work for labor.

The CHAIRMAN. Thank you very much, Mr. Curtis. We will give careful consideration to your suggestion.

The CHAIRMAN. We have with us this morning a gentleman from New Jersey, Mr. Spencer D. Baldwin. We will ask you to come around, Mr. Baldwin, and give your name, business connections, and whom you represent.

Mr. BALDWIN. Yes, sir.

STATEMENT OF SPENCER D. BALDWIN, BALDWIN LUMBER JUNCTION MILLING, INC., JERSEY CITY, N. J.

The CHAIRMAN. We shall be glad to hear you, Mr. Baldwin.

Mr. BALDWIN. My name is Spencer D. Baldwin, president of the Baldwin Lumber Junction Milling Co., Jersey City, N. J.

Mr. Chairman and gentlemen of the committee, I will make this as brief as possible. As chairman of the legislative committee of the National Retail Lumber Dealers Association I have been selected by a committee of representatives in the building industry to present their plea for the extension of title I of the National Housing Act for 2 years beyond July 1, 1939.

On January 10, 1939, the Producers' Council, Inc., which represents the manufacturers' division of the building industry, adopted the following resolution:

Whereas title I of the National Housing Act has benefited hundreds of thousands of property owners, produced work for innumerable skilled craftsmen, and been of material aid in stabilizing the economic life of the Nation; and

Whereas recent studies conducted by the Federal Government show that approximately half of existing United States structures are in urgent need of repair or rehabilitation to provide decent living accommodations: Be it

***Resolved,* That the board of directors of the Producers' Council, Inc., in their January 10, 1939, meeting strongly urge the passing of legislation to extend the operation of title I of said act beyond July 1, 1939.**

In addition to the action of this large manufacturing group, national organizations such as paint, roofing, insulation, real-estate boards, lumber, plumbing and heating, sand and gravel, ready-mixed concrete, local groups of plumbing contractors, and painting contractors, and others, have gone on record favoring extension. In fact, we find the entire building industry is of the opinion that title I is not only desirable but absolutely necessary to further the improvement of housing in 1939 and 1940.

In April 1937 title I was allowed to expire, in spite of a plea by the building industry for renewal. Several months later there was a marked recession in building operations, and as a result recommendations were made to Congress to liberalize all sections of the National Housing Act to stimulate construction and improvement, and one of the first recommendations was for renewal of title I. Since renewal of title I on February 3, 1938, Federal Housing Administration reports show that modernization and repair work under this title has totaled $171,000,000, with very small losses.

It has been stated by a witness before this committee that title I should be allowed to expire on July 1 because it has served its purpose. It is the feeling of the building industry that title I has not served its purpose and that there is still a very definite need for insurance by the Government of repair and modernization loans. In support of the position of the building industry, we would like to call your attention to a press release of the Works Progress Administrator under date of January 9, 1939, in which Works Progress Administrator Col. F. C. Harrington reports on a survey of 8,000,000 American homes in 203 urban communities. These 8,000,000 homes covered approximately 45 percent of the number of urban families in the United States. The survey shows that only 40 percent of the 8,000,000 homes were considered in good condition, and the remaining 60 percent were in need of either major or minor repairs and improvements. We are asking that this report be incorporated in the record for your information.

(The report referred to is as follows:)

WORKS PROGRESS ADMINISTRATION

[For release to newspaper Monday morning, January 9, 1939]

WORKS PRORGESS ADMINISTRATION FINDS ONLY 40 PERCENT OF URBAN HOMES IN "GOOD CONDITION"

Col. F. C. Harrington, Works Progress Administrator, today (January 9) made public a comprehensive report disclosing that only 40 percent of the 8,000,000 American homes covered in surveys of 203 urban communities were considered in "good condition."

The report is Urban Housing: A Summary of Real Property Inventories Conducted as Work Projects, 1934–1936. The inventories, covering approximately the number of homes sufficient to house 45 percent of the urban families in 1930, were begun as projects under the Civil Works Administration and the Federal Emergency Relief Administration, and carried on by the Works Progress Administration.

More than 16 percent of the homes covered by these studies, with the exception of residences in New York City, were rated "unfit for use" or in need of major repairs to make them habitable. More than 15 percent had no private flush toilets, 20 percent were without private bath or shower, and more than 40 percent lacked central heating.

Most of these inventories for the individual cities were set up in response to local demands and were designed to meet specific local needs through the determination of the residential housing situation in the areas surveyed. The results have been summarized in a report issued by the Works Progress Administration, Division of Social Research, under the direction of Corrington Gill, Assistant Administrator in charge of Research and Statistics.

"From these surveys has been assembled the most detailed body of statistical information now available on the physical characteristics of housing in the United States," he said in the letter of transmittal. "Such information provides the data essential for analysis of various problems connected with real estate and aids in the formation of sound programs throughout the country."

While substantial housing is not limited to certain sections of the country, Mr. Gill said, the extent and characteristics of such housing vary from region to region. He called attention to the findings of the surveys that 32 percent of all city dwelling units in the Southeast lacked private indoor flush toilets, while 19 percent in the Northwest and 12 percent in the Northeast were without that facility. Fifteen percent of the urban dwelling units in the Southwest, 7 percent in the Northwest, and 3.5 percent in the Northeast were without running water.

Installed bathing facilities were found to be even less common than private flush toilets. More than 40 percent of the dwelling units in southeastern cities were without private bathtubs or showers; in the Northwest 21 percent and in the Northeast 20 percent were without these facilities.

"It is generally agreed that the absence of sanitary facilities, unsafe condition of physical structure, overcrowding, and the presence of extra families are all factors which render a dwelling unit substandard," Mr. Gill added.

Findings presented by the report include:

There was more than one person per room in 17 percent of the dwelling units visited.

Five percent of the families covered lived in dwelling units already containing a "primary" family.

Single-family houses were the dominant type of residential structure, but one-half of the dwelling units were in buildings designed for more than one family.

Nearly two-fifths of the units were occupied by their owners.

Most single-family homes occupied by their owners were valued at less than $5,000 and about one-fifth at less than $2,000.

In rented units the average monthly rental was about $25, with a wide variation from city to city and section to section of the country.

Electricity was the usual means of lighting, and either electricity or gas was the common fuel used for cooking. In the Southeast, however, 25 percent of the urban homes were without gas or electric lighting and nearly half were without gas or electric cooking equipment. More than half the structures inspected were built before 1915 and a quarter before 1895. Wood was found to be the prevailing material for exteriors in all regions except New York City, the proportion ranging from 65 percent in the Northeast to 82 percent in the Southeast.

The data on individual structures and dwelling units are confidential, but summary tabulations have been released for city blocks, housing districts, census tracts, and other tabulating units. Through these reports information on the general housing situation for each city and for areas within the city may be secured. In most cases the complete local report is available in the community surveyed. The final city reports have been distributed to Federal agencies concerned with housing.

Inventories from which the report was prepared were made in the following communities:

Alabama: Birmingham.
Arizona: Phoenix.
Arkansas: Little Rock.
California:
- Oakland.
- Sacramento.
- San diego.

Colorado:
- Colorado Springs.
- Pueblo.

Connecticut:
- Stamford.
- Waterbury.

Delaware: Wilmington.
District of Columbia: Washington.
Florida: Jacksonville.
Georgia: Atlanta.
Idaho: Boise.
Illinois:
- Aurora.
- Decatur.
- Joliet.
- Peoria.

Indiana:
- Anderson.
- Clarksville.
- Claysburg.
- Crown Point.
- East Chicago.
- Elkhart.
- Evansville.
- Fort Wayne.
- Gary.
- Hammond.
- Indianapolis.
- Jeffersonville.

Indiana—Continued.
- Kokomo.
- Lafayette.
- LaPorte.
- Marion.
- Michigan City.
- Mishawaka.
- Muncie.
- New Albany.
- Plymouth.
- Richmond.
- South Bend.
- Terre Haute.
- W. Lafayette.
- Whiting.

Iowa: Des Moines.
Kansas:
- Arkansas City.
- Chanute.
- Dodge City.
- El Dorado.
- Emporia.
- Hutchinson.
- Independence.
- Kansas City.
- Lawrence.
- Manhattan.
- Topeka.
- Wellington.
- Wichita.

Kentucky:
- Louisville.
- Paducah.

Louisiana:
- Baton Rouge.
- Shreveport.

Maine: Portland.
Maryland:
- Frederick.
- Hagerstown.

Massachusetts:
- Boston.
- Cambridge.
- Chelsea.
- Everett.
- Haverhill.
- Newton.
- Worcester.

Michigan: Lansing.
Minnesota:
- Duluth.
- Minneapolis.
- St. Paul.

Mississippi: Jackson.
Missouri:
- Jasper County.
- Kansas City.
- Springfield.
- St. Joseph.

Montana: Butte.
Nebraska:
- Lincoln.
- Omaha.

Nevada: Reno.
New Hampshire:
- Concord.
- Manchester.

New Hampshire—Continued.
- Nashua.
- Portsmouth.

New Jersey:
- Statewide.
- Trenton.

New Mexico:
- Albuquerque.
- Santa Fe.

New York:
- Albany.
- Binghamton.
- New York.
- Syracuse.

North Carolina:
- Asheville.
- Greensboro.

North Dakota: Fargo.
Ohio:
- Akron.
- Alliance.
- Ashtabula.
- Canton.
- Cleveland.
- Columbus.
- Lima.
- Marion.
- Massillon.
- Portsmouth.
- Salem.
- Steubenville.
- Youngstown.
- Zanesville.

Oklahoma: Oklahoma City.
Oregon: Portland.
Pennsylvania:
- Allegheny County, including Pittsburgh.
- Allentown.
- Arnold.
- Bethelehem.
- Bradford.
- California.
- Canonsburg.
- Coatesville.
- Charleroi.
- Delaware County.
- Donora.
- Easton.
- Erie.
- Jefferson County.
- Lancaster.
- Meadville.
- Monessen.
- Monongahela.
- New Kensington.
- Philadelphia.
- Scranton.
- Washington and East Washington.
- Waynesburg.
- Williamsport.

Rhode Island: Providence.
South Carolina:
- Charleston.
- Columbia.
- Spartanburg.

South Dakota: Sioux Falls.

Tennessee: Knoxville.
Texas:
Austin.
Dallas.
Wichita Falls.
Utah: Salt Lake City.
Vermont: Burlington.
Virginia:
Bluefield.
Hopewell.
Martinsville.
Newport News.
Norfolk.
Portsmouth.
Richmond.
Winchester.
Washington: Seattle.
West Virginia:
Bluefield.
Charlestown.
Clarksburg.
Fairmont.
Huntington.
Martinsburg.
Morgantown.
Moundsville.
Parkersburg.
Princeton.
Wheeling.
Wisconsin:
Kenosha.
Racine.
Wyoming:
Casper.
Cheyenne.

Mr. SACKS. At that point I want to ask you a question about title I. Some seem to think that the Housing Authority will take care of such places as have been contemplated in title I. Is that true?

Mr. BALDWIN. No, and I do not see why it should be true. If a mans owns a private home and it is badly in need of repairs, where should the Housing Administration take care of a thing like that.

Mr. SACKS. Some say that now the theory of the Housing Authority is that we are going to have to build these small places, new places, and small homes.

Mr. BALDWIN. No, but these are homes where they need repairs, where the roof needs repair, and they certainly would not do things of that kind.

The statement has been made before this committee that the lending institutions have been educated to handle modernization and repair loans, and that they will continue to do so without the assistance of the Federal Government. Experience shows that when title I was allowed to expire on April 1, 1937, some of the lending institutions did come forward with proposals for modernization and repair loans, but the discount rates were $7 and $8, as compared with the $5 rate under the F. H. A. Naturally, in the face of such exorbitant discount rates, and the removal of the Government insurance, business falls off, and as a consequence, the public, which, according to the experience of the building industry, and according to the facts developed by the W. P. A. survey, should be encouraged to make improvements, is prohibited from doing so by high interest rates.

In view of the tremendous need for property improvements, which actually exists, the building industry is united in urging Congress to extend title I beyond its present expiration date.

Mr. WOLCOTT. Mr. Baldwin, in this connection, you mention in your statement that when title I was allowed to expire private capital was available at a higher rate of interest, and you mention the fact that the interest that they charged was over 7 percent, when they had been able to get loans at 5 percent under F. H. A. insurance.

Mr. BALDWIN. Yes, sir.

Mr. WOLCOTT. Now, all of the information which we have had before this committee is that loans under title I have always borne an interest rate of 9.62.

Mr. BALDWIN. That is right, but in asking 6 percent, that would go up to pretty nearly 12.

Mr. WOLCOTT. You mean that they doubled up on the basic interest rate of 7 percent instead of the basic interest rate of 5 percent?

Mr. BALDWIN. Take my own business, for instance. Here are some records I have. According to our own records from my firm on F. H. A. loans, from April 20, 1935, to December 31, 1938, we have submitted to different lending institutions 615 loans aggregating a total of $438,000 under title I.

When title I went out we immediately found that they were asking more interest on our loans. So, we tried to take some of the loans ourselves, and with the help of our local bank we did. Of these 615 loans 58 of them were rejected for one of the following reasons: First, they did not comply with the F. H. A. requirements.

Second, the credit was not suitable; and

Third, insufficient income.

Of these 58 loans we decided to carry 48 ourselves, in addition to which we approved 46 other loans aggregating a total of $168,000. Now, they went and tried to get these 48 loans, and so they tried to add more interest on them. Of this amount we have charged off as uncollectible the following:

In 1936, $147.50 was charged off; in 1937, $84 was charged off; and in 1938 we charged off $19.60, of this total that we took ourselves.

As of December 31, 1938, there remains a balance on our books of $63,500, which represents the balance due to us directly, which we had to take ourselves.

Mr. GIFFORD. Did you take a second mortgage?

Mr. BALDWIN. No; we did not take any second mortgage, no, sir. We took the loans ourselves.

The CHAIRMAN. What he means is that you made the loans without having them insured?

Mr. BALDWIN. Yes, sir; we carried the loans ourselves.

Mr. GIFFORD. What security did you have for the loans?

Mr. BALDWIN. We had the same security they are taking now under title I, just simply the credit security. That is all title I is. This is under title I, not title II.

Mr. BROWN. You are not in a position to supply all of your applicants with loans?

Mr. BALDWIN. No, sir. We took just the same credit that the banks or lending institutions would have taken under title I. Of course, we cut down on that now, because the banks are making title I loans again.

Mr. GIFFORD. What do you think about the imposition of a 1 percent insurance premium on loans?

Mr. BALDWIN. I have asked some of the banks about that. They said they wanted to think it over.

Mr. WOLCOTT. We were told last year when we reduced the premium rate from a half of 1 percent to a quarter of 1 percent that the banks felt that would so deplete the insurance fund that they would not have protection sufficient to encourage them to give loans. Now, these banks come back and tell us they have had a bigger volume of business than ever before in the face of the fact that we were told they would not make loans. We did a lot of guessing last year and we followed advice that, apparently, was not sound, and I think we ought to find out where we are going. Last year these banks said we absolutely will not make these loans for 90 percent if the insurance fund is

impaired by adding this risk, 90-percent loans, and decreasing the premium rate from one-half of 1 percent to a quarter of 1 percent. Now they come back and tell us they not only made these loans, but they have made so many loans that their volume of business is greater than ever, and they have made more money themselves than they have ever made in the history of their institutions.

Mr. BALDWIN. Yes; but I do not think reducing the premium rate to a quarter of 1 percent from one-half of 1 percent had anything to do with this business.

Mr. GIFFORD. Do you think that the imposition of a 1 percent insurance premium would deter the banks from making loans?

Mr. BALDWIN. Had the F. H. A. put a quarter of 1 percent or one-half of 1 percent in title I in the beginning, the chances are there never would have been any question raised, but to put it in now, I think, would not work. Maybe a quarter of 1 percent would take care of any losses of the banks. The past year the record has been very good.

Mr. GIFFORD. It was testified here yesterday that 1½ percent would not take care of the losses on loans.

Mr. BROWN. It was testified the day before that 1 percent would.

Mr. GIFFORD. Do you think that with the proposed 1 percent insurance fee the banks would object to making those loans when they can get 9.72 percent?

Mr. BALDWIN. I should not think they would, but you know what banks are. They want to get all they can get. At the present time the banks have just gotten a little shock in our State. One of the banks closed in Jersey City because they had been carrying too much real estate.

Mr. GIFFORD. On the basis of the Banking Act of 1935, how is it possible that banks are not able to transfer their real estate to the Federal Reserve? Could they not just rediscount those real estate loans?

Mr. BALDWIN. You mean could the banks rediscount them?

Mr. GIFFORD. Yes.

Mr. BALDWIN. No; I do not think they would rediscount anything under title I.

Mr. GIFFORD. Your bringing in this New Jersey situation comes as a distinct shock to this committee, because the committee thought it could not happen; that we had provided a place for them even to discount real-estate mortgages; and you say that real-estate mortgages caused the trouble.

Mr. BALDWIN. Under title I it is not even a mortgage. It is just simply a moral loan on a man's credit. Under title II it is a different proposition.

Mr. GIFFORD. Do you think that failure was a very good recommendation for commercial banks to take mortgages?

Mr. BALDWIN. It had nothing whatever to do with title II. It only scares the banks when it comes to real estate, because the closing of that bank was because they had so much real estate on their hands. They had real estate there that had not made any loans under title II, because they were not in a position to make loans under that title.

Mr. GIFFORD. I do not want to pursue that, but with all of the machinery that has been set up here——

Mr. BALDWIN (interposing). What did you say; I do not understand you.

Mr. GIFFORD. I say with all the machinery that has been set up here, these failures were supposed not to happen. Experts have declared it could not happen, but it has happened. It is a distinct shock, is it not?

Mr. BALDWIN. Absolutely, but that bank had an awful lot of real-estate mortgages, and it may have been some of the loans they had made.

Mr. GIFFORD. But the great question before this committee has been to separate investment banking and business banking, and we are now trying to put the commercial banks into real-estate investment fields. My colleague on my left has constantly inveighed against that, but we gave the Federal Reserve power to take over those mortgages and rediscount them.

Mr. BALDWIN. But these were not F. H. A. mortgages that those banks had. They had not made any real estate loans at all, I guess, in 5 years. So they cannot turn anything over to the banks that you are talking about, because they had no F. H. A. loans.

Mr. GIFFORD. Do you mean that those real-estate loans are all over 5 years old?

Mr. BALDWIN. I should say they were, and some of them may be 10 or 15 years old.

The CHAIRMAN. Do you know what percentage of their loans were represented by real-estate security?

Mr. BALDWIN. The title company in New Jersey?

The CHAIRMAN. No, the bank that failed; do you know what percentage of their loans were real-estate loans?

Mr. BALDWIN. No, sir; I do not know.

The CHAIRMAN. Do you know how much they had in real-estate loans?

Mr. BALDWIN. No, sir; I do not know that.

Mr. GIFFORD. These loans were all over 5 and 10 years old?

Mr. BALDWIN. Yes. This bank had not made any loans whatever under the F. H. A. They could not do so. They were not in financial condition to make any loans at all under the F. H. A.

The CHAIRMAN. That was a State bank?

Mr. BALDWIN. Yes, sir.

Mr. SPENCE. What is the legal rate of contract interest in the State of New Jersey? How much can you charge?

Mr. BALDWIN. The interest rate?

Mr. SPENCE. Yes.

Mr. BALDWIN. Well, on mortgages it is 6 percent, straight 6 percent, and for loan companies it is 9 percent, personal loan companies that is.

Mr. SPENCE. What are these mortgages you hold and what interest rate do they bear?

Mr. BALDWIN. We have no mortgages. These are notes.

Mr. SPENCE. What interest do the notes bear?

Mr. BALDWIN. It figures out 9.7 percent.

Mr. SPENCE. Five percent discount?

Mr. BALDWIN. It figures 9.7 percent. That is what the banks all get, so we take the same rate. These title I loans that I am telling you

about are not under mortgages at all. There are loans made under mortgages up to $2,500 on small homes, but we had none of those.

Mr. SPENCE. What is the legal rate of interest in New Jersey?

Mr. BALDWIN. On loaning companies, personal loaning companies, I think it is 9.5 percent or 9.7 percent.

Mr. SPENCE. Is that discount?

Mr. BALDWIN. Yes; but the regular mortgage loan is 6 percent interest in the State of New Jersey.

Mr. SPENCE. Can they contract for higher interest rates?

Mr. BALDWIN. Yes; the law in New Jersey allows it. They call it a personal loan.

Mr. SPENCE. Does it allow it on a loan of any other character?

Mr. BALDWIN. No; you go down to a bank and discount a loan, and the most they can charge you is 6 percent.

Mr. SPENCE. These notes were for materials and supplies you furnished to the home owners?

Mr. BALDWIN. Yes, sir; they were for materials and supplies that we furnished, for which we took these notes.

Mr. SPENCE. Do you not have any other security than their personal notes? Do you take a material man's lien when you furnish that material?

Mr. BALDWIN. We do just the same as anybody else, and just take their notes.

Mr. SPENCE. A note with security is all you have?

Mr. BALDWIN. That is all we have.

Mr. WILLIAMS. And you have found those to be very safe loans?

Mr. BALDWIN. Yes, sir; we have found those loans to be very safe.

Mr. SPENCE. I am talking about the personal loans you carry.

Mr. BALDWIN. Yes, sir.

Mr. SPENCE. You have no security or a mortgage of any kind?

Mr. BALDWIN. No, sir. When the banks refused to go along with those people, we simply took them over as far as we could, took them ourselves up to the limit of our capacity.

Mr. SPENCE. Then, you have no security other than their personal obligation?

Mr. BALDWIN. No. We do not even have as much as the Government gives the banks, because they give them 10 percent.

Mr. SPENCE. Do not the materialmen usually take a materialmen's lien when they construct a house?

Mr. BALDWIN. Would you repeat that question?

Mr. SPENCE. In most States you can get a materialman's lien when you furnish material to build a house.

Mr. BALDWIN. On most of these houses there is already a mortgage. We do not want a second mortgage.

Mr. SPENCE. Would you rather have this moral risk than a second mortgage?

Mr. BALDWIN. Absolutely; we would rather have the moral risk, because they are paying on the notes every month. Before I left the office yesterday I found out that payment on this $63,000 balance which is due is current; the payments are up to date.

Mr. GIFFORD. Why don't you like second mortgages in New Jersey?

Mr. SACKS. It is an equity proceeding over there in New Jersey. They do not have a filing of a bond in New Jersey like we do in some States. In New Jersey you have to go through an equity procedure.

Mr. GIFFORD. Is that your answer? Do you adopt that as your answer?

Mr. BALDWIN. I think that has been a big thing under the F. H. A.——

Mr. SACKS. It is very expensive, Mr. Gifford, to go through a foreclosure proceeding in New Jersey.

Mr. GIFFORD. I am trying to make this witness say what his answer is as to why he prefers a moral risk to a second mortgage.

Mr. BALDWIN. Two of the men who had loans last year died. We just said we were not going to push the widows, and we just forgot about it—that is all. I think the biggest thing the F. H. A. has done in this country is to wipe out this second mortgage evil. It is the most damning thing that ever occurred in this country, and the Federal Housing Administration has wiped that out, and that is the most important thing it has done.

Mr. PATMAN. Sometimes there is more than a second mortgage. There is also a third, fourth, or fifth mortgage.

Mr. BALDWIN. Yes; there is sometimes a second, and even a third or fourth mortgage.

Mr. SPENCE. How many notes do you hold?

Mr. BALDWIN. I do not know how many. I just gave you the total aggregate amount of all the notes we hold.

Mr. SPENCE. Did you state the amount of the notes?

Mr. BALDWIN. They average $700 or $800, and I think there is one over $1,000. They are all small loans.

Mr. SPENCE. All of these makers have paid their interest on the notes promptly?

Mr. BALDWIN. On these notes they have; yes, sir. When I left yesterday afternoon we found none in default.

Mr. SPENCE. Has that been the history of all of these notes, or are they doing better now than they have been doing?

Mr. BALDWIN. I just told you what our personal losses have been. I read off the amounts. The losses were $17.50 in 1936, $84 in 1937, and $19.60 last year. It is uncanny, and I do not blame you if you doubt it.

Mr. SPENCE. I am glad to see that, as it looks as though times are getting better.

Mr. BALDWIN. It is uncanny, but these people want to keep their homes, and they will pay those notes before they pay anything else.

The CHAIRMAN. Any agency in the world can make loans for home improvement if they select those loans with reference to the financial condition of the borrower and the character of the borrower and his earning capacity and his ability to repay the loan?

Mr. BALDWIN. Yes, sir; that is right.

The CHAIRMAN. As a matter of fact, almost any citizen will repay a debt of that kind if he can.

Mr. BALDWIN. Yes, sir; absolutely.

Mr. GIFFORD. A second mortgage under the laws of New Jersey may be expensive to foreclose and you have brought that out, perhaps. But what is your remedy if they do not meet these payments?

Mr. BALDWIN. If they do not meet these payments on the notes?

Mr. GIFFORD. Yes; if they do not meet them.

Mr. BALDWIN. In no case have we started suit——

Mr. GIFFORD. That does not answer my question. What would be your remedy?

Mr. BADLWIN. Our remedy is to start suit, and that is the only remedy we have.

Mr. GIFFORD. You can grab anything then?

Mr. BALDWIN. Yes; we can take anything we can get.

Mr. GIFFORD. Which is much better than a second mortgage?

Mr. BALDWIN. We generally find out they have not anything. If they cannot pay that they have not anything.

Mr. GIFFORD. But it is better than a second mortgage?

Mr. BALDWIN. If you get a man's name on that note your remedy is to seize anything he may have.

Mr. WILLIAMS. Most of these homes you say have mortgages on them already?

Mr. BALDWIN. Absolutely.

Mr. WILLIAMS. Of course, you could not touch that.

Mr. BALDWIN. No.

Mr. WILLIAMS. And, in addition to that, they have homestead exemptions, have they not?

Mr. SACKS. Yes; New Jersey has.

Mr. BALDWIN. What do you mean, may I inquire?

Mr. WILLIAMS. The fact that you own a home gives you a homestead exemption in most of the States, does it not?

Mr. BALDWIN. I do not know.

Mr. SACKS. They have a personal exemption in New Jersey.

Mr. WILLIAMS. What is your personal exemption?

Mr. BALDWIN. $200.

Mr. WILLIAMS. And there is no homestead exemption in New Jersey?

Mr. BALDWIN. No.

Mr. WILLIAMS. That certainly must be an exception to the rule.

Mr. BALDWIN. Not in New Jersey.

Mr. GIFFORD. If a man has three cows worth $200 you could not touch them, but if he has six cows you could levy on them.

Mr. BALDWIN. What is the use of wasting money suing them if they have not anything?

The CHAIRMAN. For reasons of public policy most States give citizens a personal homestead exemption, as a matter of policy looking to the general welfare and social conditions, and I am surprised that the State of New Jersey does not have a personal exemption of more than $200.

Mr. SACKS. The State of Pennsylvania does not have one either.

Mr. BALDWIN. New Jersey has no such law.

Mr. GIFFORD. I want to congratulate New Jersey. They have a very good law relating to deficiency mortgages.

Mr. GORE. Mr. Baldwin, are you familiar with any other concerns, such as yours, with respect to their experience along this line?

Mr. BALDWIN. Yes; I am familiar with the experience of other concerns. I talked to one of our senators from New Jersey, State Senator Louizeaux, from down in Plainfield, who owns the Louizeaux Lumber Co., and their experience has been the same as ours. They have had very good success with it.

Mr. GORE. That is fine.

Mr. BALDWIN. I could not believe it.

The CHAIRMAN. Mr. Baldwin, there is nothing in the world unusual or surprising about what you are telling us. The people of this country have not lost their character. They have lost their ability and opportunity to pay their debts.

Mr. BALDWIN. Yes, sir; that is right.

The CHAIRMAN. And those who do not pay are those who cannot pay. That is the simple truth of this thing. This system we have of undertaking to standardize loans and substitute a certain kind of security for human character has not worked, and it never will.

Mr. BALDWIN. Yes, sir.

The CHAIRMAN. A bank in New York in their annual statement showed that they had outstanding over 287,000 personal loans, loans on character. They had outstanding 53 million dollars of these loans at the end of the year at low rates of interest, and had not lost any money. They were running an old-fashioned country bank, the kind that built this country. They made loans on character.

Miss SUMNER. I was interested in that statement the other day. Was that under the present banking regulations? No other bank in the country can lend money like that; they are not permitted to.

The CHAIRMAN. Oh, you are mistaken, I think, Miss Sumner. We have not yet entirely eliminated character as an asset in banking. I know the tendency has been that way and we have standardized almost everything in the world, but we have not eliminated character entirely.

Miss SUMNER. That was two-name paper; is that right?

The CHAIRMAN. These banks are in good condition.

Miss SUMNER. Of course, when you loan on two names you are not just loaning on one character, are you?

The CHAIRMAN. I did not gather from this man's report that there was anybody on notes except the borrowers who signed the notes.

Mr. SACKS. Are there any endorsers on your notes, Mr. Baldwin?

Mr. BALDWIN. It is just a straight note, made by the owner of the property.

Mr. SPENCE. Were mortgages on the property at the time of the execution of the note?

Mr. BALDWIN. I guess there are few homes that do not have a mortgage on them of some kind.

Mr. SPENCE. You look to the note, and not to any other security at all?

Mr. BALDWIN. The only loan I ever came across where they said the property was clear was about 3 months ago. They said the house was free and clear and wanted to make a loan of $600, and we found there was $6,000 taxes due. So I do not know the difference between a first mortgage and $6,000 taxes. When title I went out, there were some people that had these obligations, and they went to the bank for these loans. The banks got cold feet and said they could not get loans from them. So we tried to help them out on some of these loans ourselves, and we took all we could carry.

Mr. WILLIAMS. How much money have you loaned out?

Mr. BALDWIN. Of the 58 loans that they rejected we decided to carry 48 of them ourselves, in addition to which we approved 46 other

loans aggregating a total of $168,000, of which there is still due $63,500.

Mr. WILLIAMS. And those are all in good standing?

Mr. BALDWIN. Those loans are all in good standing; every one of them.

Mr. WILLIAMS. How long have you been in that business?

Mr. BALDWIN. What is that?

Mr. WILLIAMS. What period of times does that activity cover?

Mr. BALDWIN. It covers some of them from 1935. After the law went into effect, those 58 loans were rejected by the banks, and we took them because we knew the people. When title I went out, our amount increased, and we are still going to take some more of them, according to our finances.

Mr. WILLIAMS. You are still willing to go on with that kind of activity to the extent of your ability?

Mr. BALDWIN. We do not want to continue it, but if they are going to turn down title I, we will have to try to take some of them.

Mr. WILLIAMS. It has not been any losing proposition, has it?

Mr. BALDWIN. No; it has not been a losing proposition.

Mr. WILLIAMS. Have you discussed this matter with other agencies of similar character?

Mr. BALDWIN. What is that?

Mr. WILLIAMS. Have you talked about it with other people?

Mr. BALDWIN. No; what do you mean by "with agencies"?

Mr. WILLIAMS. With reference to this loaning business.

Mr. BALDWIN. Why, yes; as a matter of conversation amongst all lumber dealers.

Mr. WILLIAMS. They are all doing it then?

Mr. BALDWIN. No; they are not all doing it. What can the small builder do?

Mr. WILLIAMS. Wait a minute. I am asking you to what extent you know these other people are engaging in this kind of activity?

Mr. BALDWIN. In the State of New Jersey all four of us.

Mr. WILLIAMS. Four of you in the State of New Jersey?

Mr. BALDWIN. Yes, sir.

Mr. WILLIAMS. They are all lumber dealers?

Mr. BALDWIN. Yes; they are all lumber dealers.

Mr. WILLIAMS. Are any lending companies, or any other agencies such as insurance companies making those loans?

Mr. BALDWIN. No, sir; not under title I. Remember, this is title I under which these loans are made.

Mr. WILLIAMS. I know what I am talking about.

Mr. BALDWIN. The insurance companies make no loans under title I.

Mr. WILLIAMS. They do not lend anything under that title?

Mr. BALDWIN. No.

Mr. WILLIAMS. The banks will not do it?

Mr. BALDWIN. There is only one making them in the State of New Jersey, the Wald Credit Corporation in Newark. That is all I know of. I know of no others.

Mr. WILLIAMS. The reason the banks do not make them is because they want the Government to insure them?

Mr. BALDWIN. There may be something in that, but do not forget that this is putting a lot of people to work.

Mr. GIFFORD. Can you not discount those in your bank temporarily?

Mr. BALDWIN. These notes?

Mr. GIFFORD. Yes.

Mr. BALDWIN. No; we do not rediscount them at the bank.

Mr. GIFFORD. You cannot do it without recourse, but suppose you endorse them over to the bank.

Mr. BALDWIN. Well, but we do not put them in the bank. We put our own note in the bank if we want money.

Mr. SPENCE. The bank would take them if you endorse them, would it not?

Mr. BALDWIN. We would rather have one note in the bank than to have those notes coming due about every other day. In the lumber business in the United States, the majority of dealers are the small dealers. I judge that 80 percent of the lumber dealers in the United States today are small dealers, and they simply cannot go ahead and finance those improvements. The small dealer cannot do it without the help of the bank or somebody else making those loans under title I. It has been a wonderful thing, I know, for the small yards right in Jersey City.

Mr. BROWN. You could do more business under title I than you are doing now?

Mr. BALDWIN. And carry it ourselves?

Mr. BROWN. Yes.

Br. BALDWIN. No; we could not. We have a financial limit too.

Mr. BROWN. That is what I say, you could do more business with title I than you could without it?

Mr. BALDWIN. Absolutely, if they continued the insurance.

Mr. SPENCE. What proportion of your business is done on credit?

Mr. BALDWIN. Under title I——

Mr. SPENCE. No; what proportion of your business is done on credit? You get very little cash, do you not?

Mr. BALDWIN. That would surprise you. They do give you from $100 to $200 down. You would be surprised on that, too; the whole thing has been a surprise. The automobile people and the icebox people have done it, but the lumber man has been asleep for 40 years, and all of a sudden he woke up. People will keep their home before they will pay their automobile broker yet.

Mr. SPENCE. How long have you been doing work of this character?

Mr. BALDWIN. Since 1935 when the F. H. A. went into business, but we did not go into title I originally.

Mr. SPENCE. Did you furnish materials on personal notes before that time?

Mr. BALDWIN. Yes. I would rather have that personal note, than to take the note of some contractor or builder.

Mr. SPENCE. How long have you been taking the personal notes?

Mr. BALDWIN. Ever since the F. H. A. went into effect, or maybe nine months after they started.

Mr. SPENCE. Were you in business before that?

Mr. BALDWIN. You say was I in business?

Mr. SPENCE. Yes.

Mr. BALDWIN. I have been in business 42 years in New Jersey.

Mr. SPENCE. How did you do your business before the F. H. A. was organized?

Mr. BALDWIN. That was contractor business. They let it out to the contractor, and the contractor bought it himself. Maybe we got paid, and maybe we did not.

Mr. SPENCE. You took your lien, then, didn't you?

Mr. BALDWIN. We have no lien on a contract for repairs in New Jersey. We have a lien under construction. That is, we have no lien if there is a contract on file. We take a contract for a new house, and we file what is called a notice of intention, which means that we have a right to file, but if there is a contract on file we have not that right.

Mr. SPENCE. The note of the home owner has been better than the debt of the contractor?

Mr. BALDWIN. Absolutely; I should say so.

Mr. WOLCOTT. Does the contractor have to put up a bond when he files his contract?

Mr. BALDWIN. There are very few bonds filed by contractors in New Jersey.

Mr. WOLCOTT. What recourse has a material man who furnishes material, or a laborer who does labor on your home?

Mr. BALDWIN. We just have to trust to luck when we do business with a contractor.

Mr. WOLCOTT. You have no mechanic's lien law at all?

Mr. BALDWIN. No, sir; not in New Jersey. Our mechanic's lien law says we have a right to file a notice of intention. If we do not file that notice we have no right to put a lien on that building.

Mr. WOLCOTT. And the notice of intention includes what?

Mr. BALDWIN. The notice of intention or contract on an owner putting up a house means that we reserve the right to put a lien on that building if we do not get paid. It has to be done before the job starts, and if we do not put that notice of intention on file in time we lose all rights for a lien on that building.

Mr. WOLCOTT. You have no right to even file a notice of intention on modernization or repair work?

Mr. BALDWIN. No, sir.

Mr. JOHNSON. Is it the policy to charge more for material and other things when the Government is backing the proposition, furnishing the money?

Mr. BALDWIN. We charge less.

Mr. JOHNSON. The reason I asked you that is I have a letter in my files written by a firm stating a price upon an article provided it was purchased with Government money, and if it was not purchased with Government money, the price would be 15 percent less.

Mr. BALDWIN. That is not our case.

Mr. JOHNSON. I just wondered if that was the general practice.

Mr. BALDWIN. If a man is sure of his money and is sure of getting paid, he will naturally make a lower price.

Mr. JOHNSON. I was surprised to see that in the letter.

Mr. SIMPSON. What is the average amount of those loans that you have made under title I?

Mr. BALDWIN. I just stated that a while ago. It runs between $800 and $1,000, most of them we have, but they have run as high as $1,200 or $1,300. You will find the average is $700 or $800.

Mr. SIMPSON. I thought you said you had loaned about $160,000 amounting to about 90 loans.

Mr. BALDWIN. No; we took those 58 loans that had been rejected by the banks, and that the banks would not take. We knew the people and we were willing to take the loans ourselves. I think that total amounts to $168,000, of which there remains $62,000 odd, and up to late yesterday there was no default on any of them.

Title I has been one of the finest things we have ever had. I do not think it will last forever, but I think it ought to be renewed, and I think it has given everybody confidence. Even people coming down and asking for loans still think the Government is behind them. I do not know why, but there is that psychological effect.

The CHAIRMAN. Mr. McDonald, have you anything further you want to say?

Mr. MCDONALD. No, sir; Mr. Chairman.

The CHAIRMAN. Without objection, the committee will stand adjourned.

(Thereupon, at 12:10 p. m., the committee adjourned subject to the call of the Chair.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

FRIDAY, FEBRUARY 24, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee, at the conclusion of an executive session, proceeded, at 11:15 a. m., in open session, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Sacks, Mills, Martin, Folger, Hull, Wolcott, Gifford, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner, and Miller.

The CHAIRMAN. Mr. Daiger, we asked you yesterday if you would let us have today an estimate of the cost to the F. H. A. of operating title I. If you have this estimate, will you please give it to us now.

STATEMENT OF J. M. DAIGER, ASSISTANT TO THE ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION

Mr. DAIGER. Yes, Mr. Chairman, I do have an estimate of the operating expenses of the F. H. A. attributable to title I, and I should like to give it you for the record in the form of a statement that I have had prepared for this purpose.

With your permission, then, Mr. Chairman, I shall do that. The statement on title I, Operating expenses, is as follows [reading]:

A detailed break-down of expenses of the F. H. A. under titles I and II of the act has not been maintained from the beginning of operations. An estimate has been made of operating expenses attributable to title I during the 6 months' period July through December 1938. On the basis of this study, it is estimated that approximately $1,376,000 of an estimated $13,500,000 in total operating expenses of F. H. A. for the fiscal year ending June 30, 1939, will be attributable to title I.

The section in Washington devoting full time to collections, investigations, etc., of claims for insurance paid to lending institutions costs approximately $337,000 a year. Expenses in field insuring offices in connection with investigation and collections under claims paid for insurance amounts on an annual basis to $172,000. In addition, payments made to the Department of Justice in connection with handling of claims under title I insurance and to the Treasury Department, Procurement Division, in connection with the handling of repossessed properties accounts for approximately $75,000 a year.

Expenditures in the Comptroller's Division, the Legal Division, the Economics and Statistics Division and the various administrative divisions of F. H. A. headquarters in connection with audit of loan reports received from lending institutions, maintenance of figures on title I operations, the investigation of credit extension of lending institutions, the compliance of loans with F. H. A. regulations, the legal work in connection with loans reported for insurance and claims for insurance sent in by lending institutions, etc., are estimated at approximately $563,000.

Approximately $45,000 of the estimated annual title I expenses covers expenditures in the Washington office in connection with educational activities under title I, such as preparation of radio programs, mats for newspapers, preparation of pamphlets to be used by financial institutions and industries, etc. An additional $184,000 covers expenses incurred in individual field insuring offices for educational activities under title I in local communities, representing expenses applicable to part time given by employees in field offices to such activities.

The total of all of these items amounts to the estimated $1,376,000 total annual expenses attributable to title I operations.

Employees giving full time to title I operations in field offices and in headquarters number 244, with 265 of the personnel in field offices giving a part of their time to title I activities and between 400 and 500 persons in Washington giving part time to these activities.

Mr. Chairman, that concludes the summary of title I operating expenses. The following statement covers the questions of yesterday and today in regard to operations under title I:

As of December 31, 1938, total notes insured under title I of the National Housing Act numbered 1,833,185, with a total face amount of $733,350,548, of which 1,458,209 for $561,631,922 were insured under the provisions of the original title I of the act and 374,976 for $171,718,626 under the act as amended February 1938.

Claims paid under contracts for insurance held by lending institutions reporting modernization and property-improvement loans for insurance numbered 84,860 at December 31, 1938, for an amount of $19,239,537. At that date, cash collections on claims paid and credits on repossessed properties transferred to the Procurement Division of the Treasury totalled $6,224,859. Approximately $2,000,000 of the claims paid had been transferred to the General Accounting Office as uncollectible, leaving a balance of $10,900,000 in defaulted notes purchased, in connection with claims paid to lending institutions, in process of collection at December 31.

As shown in a detailed table presented later herein, approximately $370,000,000 of the $561,000,000 of notes insured under the original title I of the act were 20 percent reserve notes, with the balance of $192,000,000 10 percent reserve notes insured from April 1, 1936, through April 1, 1937, at which time, with the exception of insurance of catastrophe loans, operations under the original title I of the act expired. Lending institutions are not required to report regularly their outstanding balances on notes insured under title I, so it is not possible to estimate exactly the amount of reserve of the $100,000,000 authorized under the act as a reserve for losses under title I unallocated at December 31, 1938. It has been estimated, however, that the free reserve at that date was approximately $34,000,000. On a 10-percent reserve basis this would permit the insurance of a face amount of loans of approximately $370,000,000.

Of the $561,000,000 notes insured under the original title I of the act, approximately $355,500,000 were for the purpose of financing "additions, alterations, and repairs." Of this amount $282,000,000, or 79 percent, was used for improvements to residential properties, including single-family residences, multi-family structures, and farm residential property. An additional $130,500,000 was for the purpose of installation of machinery and equipment in connection with residential properties, making a total of $412,500,000 of the $560,000,000 used for improvements to residential properties. The balance of $148,000,000 was used for improvements and installation of machinery and equipment in connection with commercial and other types of property.

Of the $171,718,626 of notes insured under the amendments of February 1938, $141,300,000, or 83 percent, covered improvements to single-family or multi-family, nonfarm residential property. The balance was used for improvements to commercial, farm, and other types of property. New structures, wholly or partly residential, for which loans up to $2,500 were permitted under the new amendments, numbered $5,845 with face amount of the notes $12,566,365.

No detailed break-down of operating expenses of F. H. A. under titles I and II of the act has been maintained from the beginning of operations. It is estimated, however, that on December 31, 1938, of the total operating expenses of approximately $44,000,000, $11,000,000 has been expended in connection with title I activities. An estimate of current operating expenses under title I revived in February 1938 has been made, indicating that approximately $1,376,000 of an estimated $13,500,000 of total operating expenses of F. H. A. for the fiscal year ending June 30, 1939, will be attributable to title I operations.

Detailed reports of insuring operations under title I of the act are presented in each year's annual report to the Congress of the United States.

Mr. Chairman, that concludes the statement in regard to title I operations. At this point in the record I should like to insert, in response to the questions asked by Mr. Williams, an outline of the work of our Public Relations Division and our Division of Education in connection with title I activities. [Continues reading:]

STATEMENT DESCRIBING WORK OF PUBLIC RELATIONS DIVISION AND DIVISION OF EDUCATION IN CONNECTION WITH TITLE I

The Public Relations Division and the Division of Education are responsible for the dissemination of information concerning the National Housing Act so that the general public as well as the business interests concerned may have full knowledge of its provisions.

The Public Relations Division furnishes news and editorial material to newspapers, magazines, and other publications and prepares speeches and public statements. It maintains all relations with the press in general through regular releases and personal contacts.

The Division publishes a weekly clip sheet, containing information concerning the Federal Housing Administration, the National Housing Act, and related questions, which is distributed to several thousand newspapers upon their request, and is widely used by them. It publishes a monthly magazine known as the Insured Mortgage Portfolio, which is distributed to financial institutions. The Division also prepares suggestive material for the use of newspapers in connection with advertising by institutions, builders, etc., featuring Federal Housing Administration insured loans. This is distributed only upon request of the newspapers.

Through the Division of Education, the Federal Housing Administration has maintained constant personal and indirect contact with financial institutions, builders, realtors, architects, manufacturers of building materials, building-supplies dealers, in fact all related business interests, as well as the general public. For this purpose, informative literature and posters have been prepared and distributed; radio talks and announcements have been made during free time donated by radio stations; motion pictures have been produced and shown free of charge in commercial theaters; and exhibits to portray Federal Housing Administration activities have been designed for use at home shows, fairs, and other expositions where transportation charges have been prepaid by the operators and free space donated.

That concludes, Mr. Chairman, the statement in regard to title I, publicity and educational activities. I have brought with me some material that illustrates the manner in which the facilities of title I are brought to the attention of lending institutions and borrowers. I have enough copies to distribute to all the members.

Mr. GIFFORD. I would like to find out the tendency on your part to saddle more expense on title I than you have, because you do not like it, maybe.

Mr. DAIGER. I am sure that would be very far from the case, Mr. Gifford.

Mr. GIFFORD. Well, I remember that figure of $1,300,000; so, in your revised estimate, we will have that in mind.

Mr. SACKS. $194,000,000 is the year's business, under title I, and $1,300,000 is the operating cost.

Mr. GIFFORD. I am simply trying to help you. I did not want to be mean about it, but I wanted to know if you were saddling an undue amount of expense on title I.

Mr. DAIGER. The reason I have brought this bundle of pamphlets and circulars along this morning is that I rather sensed, in the meeting yesterday, a feeling that somehow the fact that the Administrator had not proposed a continuance of title I beyond next July 1 may have left in the minds of some of you the idea that we had not very energetically administered it and pressed the use of title I. I should like to have, either now or at some other time, handed around to the members of this committee, some of this material and to have you take a look at some of the rest of it. If you will also pass this chart around, you will see that the year 1938 has been our best year in the volume of business done under title I, under comparable provisions of law.

You will recall, Mr. Chairman, that in 1936 you amended the act to eliminate all financing of household equipment, which had been a source of considerable loss. From the month in which that particular business was eliminated, you will see, by comparison with the previous year's, which is the jagged line, that the 1938 business has, in each month, been greater than in the 1936–37 period.

Mr. GIFFORD. Might I say there, I think you will find, later, that the banks, having learned how to do this, are lending money according to this method and are not insuring it with you. They are getting the 9.272, on the same principle you started, but they are not regularly insuring the loan; but it has diverted the former straight loans.

Mr. DAIGER. Of course, that is necessarily true to some extent, though we have no way of knowing how much of this business is being financed on the same or similar terms.

Mr. GIFFORD. They say "We will loan you money on the method used under title I," but they do not do it under your jurisdiction.

Mr. DAIGER. That is correct.

Mr. GIFFORD. And it is very profitable.

Mr. DAIGER. Of course, since a bank or finance company can obtain this insurance without any cost whatsoever, it would be asking almost too much of human nature not to expect them to insure the loans.

Mr. GIFFORD. I know that our banks do not want anything to do with you, up my way. That has been shown, that they do not want anything to do with you; but they tell the public "We will assure you a like method," but they are getting away from title I and you and using your method.

The CHAIRMAN. I want to ask you to what extent have you advertised and publicized your facilities for rural loans?

Mr. DAIGER. Well, part of the material referred to covers the rural loans under title I. Then there is this printed literature which is very widely distributed through trade channels and through the local lending institutions.

Mr. CRAWFORD. The building supply houses and trade houses distribute these by the thousand, and on the check counters of the lending institutions the leaflets are found by the public as they go in. That is the way they get it out.

Mr. DAIGER. That is correct.

Mr. CRAWFORD. I have seen a great deal of it out in the field.

Mr. DAIGER. These particular circulars [exhibiting] have to do with farm-improvement loans.

Mr. PATMAN. Mr. Jones, of Texas, introduced a bill day before yesterday providing insurance parallelling the F. H. A. Act, as I understand. Are you familiar with the plan?

Mr. DAIGER. Mr. Patman, I heard something about it several days ago, but I do not have a copy of the bill. I believe a similar bill was introduced by Senator Lee in the Senate, was it not?

Mr. PATMAN. I do not recall that.

Mr. SPENCE. What kinds of local institutions are the most cooperative—the banks and the finance companies?

Mr. DAIGER. By classification under type of lending institutions, there have been participating in the title I program 1,656 national banks, 1,482 State banks, and 135 building and loan associations.

Mr. SPENCE. That is in title II—building and loan associations?

Mr. DAIGER. That is title I. This is for the period covering the amendment enacted last February.

Mr. CRAWFORD. Did you say 135 building and loan associations?

Mr. DAIGER. One hundred and thirty-five building and loan associations.

Mr. CRAWFORD. Now, do all of these institutions, which have these insurance contracts with you, use the publicity service?

Mr. DAIGER. No; not all of them.

Mr. CRAWFORD. Is that service sent to all of them, broadcast?

Mr. DAIGER. It is made available to all of them.

Mr. CRAWFORD. Or on request only?

Mr. DAIGER. May I make one correction, or addition, rather, to these figures, before I answer that question?

Mr. CRAWFORD. Yes.

Mr. DAIGER. I gave only the national banks, the State banks, and the building and loan associations; but there have been other types of institutions—savings banks, industrial banks, finance companies, and credit unions. The total number of all institutions operating under title I during the past year was 3,450.

Mr. WILLIAMS. Just to have it in the record, did you mention all the classes of institutions that have participated?

Mr. DAIGER. I have now mentioned them all.

Mr. CRAWFORD. Out of that 3,450, roughly, do you have the figures showing the number of those clients, we will call them, who have used this publicity service? If so, what is the percentage, and has the material actually been distributed to them, whether they use it or not, or do you send it out on request only? Put it in the record if you want to.

Mr. CRAWFORD. Who prepares that publicity service for you—your own people, or do you have some outside agency prepare it?

Mr. DAIGER. We have a section within the division that administers title I, in which the greater part of this is prepared.

Mr. CRAWFORD. Then the car cards are printed; is that done at the Government Printing Office?

Mr. DAIGER. Yes; that is a Government Printing Office imprint; so is this [indicating].

Mr. MILLER. That car-card space is donated?

Mr. DAIGER. Yes.

Mr. FORD. There is a paragraph in here about the payment of loans, about which I asked yesterday. It says:

> Notes must be payable in equal monthly, semimonthly, or weekly installments, except when 51 percent or more of the income of the borrower is derived directly from the sale of agricultural crops, commodities, or livestock. In such cases the note may be made payable when income will be received, but at least 1 payment must be made during each year.

Mr. DAIGER. Yes, Mr. Ford. I answered that question, I believe, in the executive session yesterday. Where the loans are made in agricultural communities, they are made payable according to the period in which the borrowers receive their income.

Mr. FORD. The payments are made to fit the borrower?

Mr. DAIGER. Yes—according to the period of the borrower's income.

Mr. SPENCE. On page 2, commencing with line 16, in your amendment, it is provided—

> The total liability which may be outstanding at any time, plus the amount of claims paid, in respect to all insurance heretofore and hereafter granted under this section and section 6, as amended, less the amount collected from insurance premiums and deposited in the Treasury of the United States under the provisions of subsection (f) of this section, and shall not exceed in the aggregate $100,000,000.

To what extent will that limit your issuing insurance under this amendment?

Mr. DAIGER. Mr. Spence, that particular part of the section you have read is in the present law, except the reference to insurance pemiums. That is the only new matter.

Mr. SPENCE. What would be your capacity to issue insurance under this present section, if it is reenacted?

Mr. DAIGER. Well we have, as you know, this total allocation of $100,000,000. We have made an estimate as of the first of January 1939, that there is a free reserve available of something over $34,000,000. That would cover, approximately, $370,000,000 face amount of loans, which you might compare, roughly, with the $200,000,000 that we have insured during the past year. Now that may be increased, as I think I explained yesterday, as reserves are released by the payment and retirement of the loans.

Mr. SPENCE. A billion dollars of insurance is the limit?

Mr. DAIGER. The $100,000,000, Mr. Spence, operates as a revolving fund; so that while it would represent, theoretically, a billion dollars, as long as the losses do not total $100,000,000——

Mr. SPENCE. With your reserves, then, you could have outstanding more than a billion dollars of insurance, could you?

Mr. DAIGER. Not at any one time. We could have, over the period of the revolution of the fund.

Mr. SACKS. But at any one time the amount outstanding could not be more than a billion dollars?

Mr. DAIGER. No. A billion dollars less claims paid and reserves allocated.

Mr. SPENCE. It cannot exceed a billion dollars at any one time; is that your construction of the law?

Mr. DAIGER. If all notes due carried the 10-percent reserve provision, it would cover a billion dollars of loans at a given time. Originally, however, title I provided for a 20-percent reserve.

Mr. WILLIAMS. You have operated for two different periods under the 10-percent provision, have you not?

Mr. DAIGER. Yes. The amendment in 1936, as I recall, expired in April 1937. That was a 10-percent provision.

Mr. WILLIAMS. The total claims that have been paid under title I are about $19,500,000?

Mr. DAIGER. That is right.

Mr. WILLIAMS. That represents a total of how much business? Does that go back to this figure of $194,000,000, or what total business does that represent?

Mr. DAIGER. The cumulative figure on title I, in the number of loans, is 1,833,185, as of December 31; and, in amount, is $733,350,548.

Mr. LUCE. The National Mortgage Association money—is that included in your figures?

Mr. DAIGER. The Federal National Mortgage Association?

Mr. LUCE. Yes.

Mr. DAIGER. The Federal National Mortgage Association is an agency established under the provisions of title III and operated under the jurisdiction of the Reconstruction Finance Corporation. Its operations relate to title II, however, and not to title I.

The CHAIRMAN. Mr. Daiger, you and your associates are excused. If we want you back we will let you know.

(The committee thereupon adjourned subject to the call of the Chair.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

TUESDAY, FEBRUARY 28, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee this day met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding, for further consideration of H. R. 3232.

Present: Messrs. Steagall (presiding), Williams, Spence, Ford, Brown, Patman, Barry, Sacks, Gore, Martin, Folger, Hull, Gifford, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner, and Miller.

The CHAIRMAN. The committee will come to order. Mr. Crawford, you may proceed.

Mr. CRAWFORD. This plan does not in any way eliminate the second mortgage feature and the high financing cost. It reduces them, but does not eliminate them. For example, suppose I buy a house or finance a house through your plan and later on, after 2, 3, or 4 years, I experience financial difficulty and have to put a second mortgage; and my friend from Texas (Mr. Patman) comes along and agrees to take the second mortgage at 15 or 20 percent.

Mr. DAIGER. I do not follow you, Mr. Crawford.

Mr. CRAWFORD. Suppose you come along and extend to me a loan at 80 percent of the value of the property on an amortization basis for 20 years and I pay it out within 10 years?

Mr. DAIGER. Why, then, place a second mortgage? You would have available the means of financing or refinancing on an 80-percent basis.

Mr. CRAWFORD. If, after I paid down to 50 percent of the value of the first mortgage, you let me move that up to 80 percent of the then value, I will not go through the second mortgage procedure; but if you will not let me move that back to 80 percent by reason of the fact I need money, I may have to resort to a second mortgage.

Mr. DAIGER. There is no reasonable probability that you could go back after 10 years and get the loan you could have gotten in the first instance, because you would have had 10 years' depreciation.

Mr. CRAWFORD. The first mortgage—will you let me move it back up to 80 percent of the then appraised value—is that in the general plan?

Mr. DAIGER. You could pay the mortgage and put on a new one. Any house that is already insured may be refinanced under existing law.

Mr. PATMAN. If this law is not extended, it will be terminated?

Mr. DAIGER. Yes; you will freeze all the existing loans of this kind at a point where they have not the facilities of the National

Housing Act and they will thereby be thrown back into the old mortgage system.

Mr. PATMAN. Where there will be all the evils that grew up?

Mr. DAIGER. Yes. You are bound to have a lot of vacant new houses if this method of financing is eliminated. That is just as sure as the sun rises and sets.

Mr. SACKS. Why?

Mr. DAIGER. Because the higher financing costs will reduce the relative number of potential buyers of existing houses. A man would simply abandon the idea.

Mr. MARTIN. Why would he abandon?

Mr. DAIGER. Because he wants to get a reduction in the cost of his money. You would drive him into the other mortgage system where he would have to pay excessive commissions, bonuses, and so forth, for a second mortgage, because he gets only from 50 to 60 percent on a first mortgage.

Mr. MARTIN. In what part of the country do they charge these exorbitant interest rates?

Mr. DAIGER. All over the United States.

Mr. MARTIN. I take exception to that. You talk about a 20-percent reduction. If the rate is 5 percent and you reduce it to 4 percent, that would be a reduction of 20 percent. Is that right?

Mr. DAIGER. That would be 20 percent.

Mr. MARTIN. That is only 1 percent, and you are talking about 20 percent.

Mr. DAIGER. There is a 20-percent reduction in the interest portion of the financing cost. When you spread that over 20 years, it is a very large item.

Mr. MARTIN. You spoke of the $200,000,000 loans you are guaranteeing. Does that benefit the mortgage companies or the individual owners?

Mr. DAIGER. That benefit goes to the home owners.

This legislation was enacted in the interest of mortgage borrowers, and its essential purpose was to eliminate the excesses and abuses and exorbitant costs of the old sytem of mortgage financing that caused the collapse of 1931, 1932, 1933, and 1934. It has been used up to the present time by 175,687 owners of existing houses and in connection with 188,219 new homes.

Mr. PATMAN. What is the average mortgage on old homes, about $2,000?

Mr. DAIGER. About $3,700 each.

Mr. PATMAN. That makes a total of about $550,000,000.

Mr. DAIGER. That makes the amount in dollars on existing construction $650,945,000.

Mr. PATMAN. What is the amount on new construction?

Mr. DAIGER. It is $878,163,000.

Mr. PATMAN. They are close together.

Mr. DAIGER. Yes; that is true.

Mr. PATMAN. That shows that when you get rid of the old car you buy a new one, and when one gets rid of an old home he gets a new one.

Mr. DAIGER. On an average, the price of an old home is lower than the price of a new one.

Mr. CRAWFORD. Going back to the question raised by the gentleman from Illinois (Mr. Martin) have we gotten ourselves into a situation whereby, through financing new homes under this plan, we are developing a condition where old homes cannot be and will not be preserved insofar as title is concerned because the people will be driven from the old homes—they will actually desert them—in order to move into something more modern and which can be paid out on easier financial terms?

Mr. DAIGER. That would be the case after next July 1 if the present law remains.

Mr. CRAWFORD. If that is true, and if we do not extend the power to lend on existing structures, will the general plan not fall absolutely of its own weight?

Mr. DAIGER. I think there would be two inevitable results. In the first place, the value of existing property would be severely depressed compared to new property. In the second place, we would slow up the volume of new construction.

Mr. CRAWFORD. And thereby defeat the purpose of both forms of insurance?

Mr. DAIGER. That is right.

Mr. SACKS. And we might create a serious condition in connection with present mortgages, because there would be a greater amount of property coming back to the hands of the mortgagees, resulting in frozen assets.

Mr. MARTIN. You say that on existing property the total mortgages amount to $650,000,000 and on new property the total mortgages amount to $878,000,000?

Mr. DAIGER. Yes.

Mr. MARTIN. That is about a 60–40 basis, is it not? It is proportionately that. In Mr. Folger's State at the present time the percentage of the mortgages on existing property is about 10 percent. I am wondering whether this large amount of mortgages on existing property took place back a few years ago and we are beyond and over that, and it is unnecessary at this time to continue the guaranteeing of mortgages on existing property.

Mr. FOLGER. We would have to increase the F. H. A. insurance by 250 percent to bring it up to the national average, would we not?

Mr. FORD. How many loans were made on existing property and how many were made on new property in the State of California? Have you that information for the various States covering Federal Housing Administration operations?

Mr. DAIGER. May I first answer the question whether the tendency is for the demand for insurance of mortgages on existing construction to decrease? I believe that is the pending question. In the year 1935 we accepted for insurance 29,787 mortgages on existing construction; in 1936, 64,049; in 1937, 55,111; in 1938, 52,057. The answer to the question is that in 1935 existing houses accounted for 65 percent, in 1936 for 52 percent, in 1937 for 45 percent, in 1938 for 30 percent.

Mr. PATMAN. Can you estimate how much these people have saved through the Federal Housing Administration, the 175,000 who have refinanced existing construction? Can you not in some way estimate the saving? It occurs to me that such information would be interesting and material.

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Mr. DAIGER. There is such a wide variation in financing in the different communities.

Mr. PATMAN. You know the rates of interest that have been charged in the different localities, do you not?

Mr. DAIGER. I believe that no one would dissent to the statement that the ordinary 80 percent financing, whether it consisted of 1, 2 or 3 mortgages, under the old system of renewals, cost not less than 15 percent a year. I have seen estimates of that running as high as 20 percent.

Mr. PATMAN. Can you not use the figures you are quoting and determine about how much has been saved each year by these borrowers and how much they will save in the future until the maturity of their loans?

Mr. DAIGER. As I stated previously, it is reasonable to assume that the cost of obtaining 80 percent financing under the old system of renewals amounted to not less than 15 percent.

But if we assume that the average interest rate paid on the first mortgage and secondary liens combined was not over 8 percent over the period of the loan, and that the borrower made his payments in such a way as to be equivalent to amortization of the mortgage in 20 years, the borrower on a $3,700 mortgage under the F. H. A. plan at 5 instead of 8 percent would have saved almost $1,600 in interest over the period of the loan. The saving to 175,000 borrowers, on such an assumption, would amount to approximately $275,000,000 over the 20 years.

On the average F. H. A. monthly mortgage payment of about $30, this would represent a substantial saving each month.

Mr. PATMAN. They would save from about $3 to about $6 a month on an average loan of $3,600?

Mr. DAIGER. The average payment on a F. H. A. insured loan is only about $30 a month.

Mr. PATMAN. And that would mean from 10 to 20 percent saving.

Mr. DAIGER. That saving for a man who is paying $30 a month would be very important, amounting possibly to around $6 a month.

Mr. PATMAN. A very substantial saving.

Mr. MILLER. How about the States wherein there is no saving? I have in mind a man who wanted to buy a house valued at $9,700. He shopped around everywhere to get the money with which to make the purchase and, finally, he saved money by borrowing from a local bank at 5 percent.

Mr. DAIGER. The Federal Housing Administration does not, of course, undertake to insure all mortgages.

Mr. MILLER. In that case it was advantageous not to borrow from the F. H. A.

Mr. DAIGER. That factor of saving came into the picture in Connecticut after the National Housing Act was put on the statute books. Your legislation supplemented our legislation.

Mr. MILLER. I have a feeling that if we make terms too easy that will be undesirable. I know those who have bought F. H. A. houses without have a good reason for so doing. When conditions are so that one may buy a house without putting any of his own money into it, I do not think that is helpful.

Mr. DAIGER. The F. H. A. puts a ceiling of 5 percent on the interest charge. That means that no one need pay any more than 5 percent

if the mortgage is eligible for insurance. In New York State and in New England, I believe, there are many institutions making loans at 4.5 and 5 percent, without the benefit of F. H. A. insurance.

Mr. MILLER. What, in your opinion, is the benefit of F. H. A. insurance to the average person?

Mr. DAIGER. I have just outlined the benefits in describing the operations that have taken place thus far.

Mr. MILLER. What is the advantage to one buying a house? I cannot see it.

Mr. DAIGER. In the case you have just cited the advantage came from the fact that financing costs in the State of Connecticut have been reduced as a result of the enactment of the National Housing Act.

Mr. MILLER. What is the situation at the present time?

Mr. DAIGER. In the case you cited, the man was able to obtain a loan on terms at least equally as favorable as the F. H. A. maximum. The F. H. A. does not say what a bank shall charge, but it does say that if the loan is to be insured, it shall not carry an interest rate exceeding 5 percent.

Mr. MILLER. What is the advantage to one who wants to buy a house?

Mr. DAIGER. Absolutely none, if one can get the same terms that are offered under the F. H. A. plan.

The CHAIRMAN. Are not borrowing conditions in the gentleman's district [Mr. Miller's] far more favorable than in some sections elsewhere throughout the Nation?

Mr. DAIGER. That has been true since the foundation of the United States. New England has always had more favorable money rates in all kinds of transactions than any other section of the country.

The CHAIRMAN. And that is particularly true of the State of Connecticut, is it not?

Mr. DAIGER. Yes.

I want to point out that in Connecticut, under title II, 1,994 borrowers have used the F. H. A. to purchase new houses, and 1,117 have used the F. H. A. to purchase existing houses. The mortgage financing has aggregated $15,250,000.

Mr. FORD. I asked about the State of California a little while ago, and then you answered Mr. Folger's question.

Mr. DAIGER. Shall I give California or Massachusetts first?

Mr. FORD. Give Massachusetts first.

Mr. DAIGER. In Massachusetts we have had 3,695 loans insured under title II and they have aggregated $18,634,000. Of those 3,695 loans 1,339 were made on new houses and 2,356 of them were made on existing houses.

Also I should like to say to Mr. Gifford that he has been misinformed about the trend of F. H. A. business under title I in Massachusetts. We had in Massachusetts 53,296 borrowers under the old title I and during the last year alone——

Mr. GIFFORD. You hear me talk about the recent tidal wave in which we used that title a great deal. It was a godsend to our people.

Mr. DAIGER. The same is true of title II.

(Stenographic record incomplete here.)

Mr. GIFFORD. Is there a tendency on the part of borrowers to trying to get a sour mortgage?

Mr. DAIGER. Frequently there is. And just as frequently we reject them. We have a rejection ratio of something more than 20 percent in these loans covering small houses.

Mr. FOLGER. If the F. H. A. should continue to insure mortgages on existing structures, would such activities merely raid the portfolios of existing private institutions and use Government credit to endorse existing private debts?

Mr. DAIGER. I think we can give a categorical "no" to that question, Mr. Folger. The best way for me to answer the question is to show you what this volume of business in insured mortgages amounts to in the different categories of lending institutions.

I should like to say that these mortgages, of course, originate with the borrowers who want to get a loan. The borrower goes to a local lending institution, or in some cases, perhaps, to the local correspondent of a life insurance company, and makes application, and that application is submitted to the Federal Housing Administration by the lending institution.

We have at the present time 6,849 lending institutions making loans under title II. The break-down of those institutions is this: There are 2,150 national banks; there are 2,551 State banks; there are 1,523 building and loan associations. Mr. Ford has said, as I remember, that the building and loan associations are opposed to this procedure or are not active in it. There are 1,523 building and loan associations doing business with us. There are 229 mortgage companies; there are 215 insurance companies; there are 131 savings banks; and there are 50 micellaneous institutions.

We have 363,906 net mortgage loans accepted for insurance and they aggregate over $1,529,000,000.

Mr. FORD. How much of that is on existing construction?

Mr. DAIGER. I gave that information a little while ago. Existing construction amounts to $650,900,000 and new construction amounts to $878,163,000.

Mr. FOLGER. Is it not true that only 10 percent of the mortgages held by building and loan associations in the United States are insured by the Federal Housing Administration?

Mr. DAIGER. I am unable to answer that offhand.

Mr. FORD. Tell us about loans on new and old construction in the State of California.

Mr. DAIGER. There are in California 67,162 borrowers under title II and those loans amount to $284,527,796. The number of borrowers in connection with new structures is 37,233, and the loans amount to $168,494,226; the number of borrowers in connection with old structures is 29,929; and the loans amount to $116,033,570.

Mr. SPENCE. How much of that business is done under section 210?

Mr. DAIGER. The figures I have given, Mr. Spence, for California cover small-home mortgages.

Mr. SPENCE. How much business have you done under section 210?

Mr. DAIGER. As of December 31, 1938, we had $3,521,600 of premium-paying mortgages on 47 projects under section 210.

Mr. WILLIAMS. Do the total figures you have given, $878,163,000, cover the entire operation under title II, including large structures under sections 207 and 210?

Mr. DAIGER. Under 203 only. The figure you give, Mr. Williams, represents new construction only. The figures on net amount of mortgages accepted, that I gave a moment ago, amounted to $1,529,109,183. That represents small-house financing—section 203 loans as distinguished from section 210 and section 207 loans.

Mr. WILLIAMS. I think it would be helpful to give us the amount of business you have done under sections 207 and 210.

Mr. DAIGER. That is information I should like you to get from Dr. Fisher. We had expected to have Dr. Fisher address the committee in connection with loans on existing construction, and he is here now. I am sure the members of the committee would be glad to hear him today or at some future date.

The CHAIRMAN. Let us hear him now.

Mr. FISHER. Under section 210, as of last December 31, we had closed 47 loans amounting to $3,521,600.

Mr. SPENCE. What have you done under section 207?

Mr. FISHER. Under section 207, as of last December 31, we had closed premium-paying loans on 91 projects amounting to $58,976,550.

The CHAIRMAN. Can you not answer Mr. Folger as to the loans made through building and loan associations?

Mr. FOLGER. Is it true that only 10 percent of the building and loan association mortgages have been insured by the Federal Housing Administration?

Mr. FISHER. That is an estimate of the United States Building and Loan League. We have no means of checking it. We do not know the total volume of building and loan association loans in the country as a whole.

Mr. FOLGER. But that is an estimate of the Building and Loan Association League of America, is it not?

Mr. FISHER. Yes; that is true.

Mr. PATMAN. That is sufficient to establish a yardstick, is it not?

Mr. FISHER. We do not quarrel with that figure.

Mr. WILLIAMS. Have you the number of lending institutions that have been approved?

Mr. FISHER. Yes; we have them here; 2,150 national banking institutions have made loans that were insured by the F. H. A.

Mr. WILLIAMS. How many national banks?

Mr. FISHER. 2,150.

Mr. WILLIAMS. Do your figures cover volume?

Mr. FISHER. Yes.

Mr. WILLIAMS. Have you figures covering old and new structures?

Mr. FISHER. Yes.

Mr. WILLIAMS. That is the information I want.

Mr. FISHER. 2,150 national banks have made 112,389 loans amounting to $459,412,000.

Mr. WILLIAMS. That covers old and new structures?

Mr. FISHER. Yes. Of that number, 55,402 were on new homes in the amount of $254,655,000; and 56,987 loans were insured on existing structures, amounting to $204,728,000, as of last December 31.

Mr. WILLIAMS. What are your figures for State banks?

Mr. FISHER. State banks and trust companies number 2,551. They have made loans numbering 98,734, amounting to $402,771,000, of

which 46,713 were on new homes in an amount of $216,124,000, and 52,021 were on existing homes in an amount of $186,647,000.

Mr. WILLIAMS. What are your figures for building and loan associations?

Mr. FISHER. There are 1,523 building and loan associations, for which we have insured 51,021 loans amounting to $203,387,000. Of these, 25,864 mortgages in an amount of $115,000,000 were on new homes, and 25,157 mortgages in an amount of $88,347,000 were on old homes.

Mr. WILLIAMS. What are your figures for mortgage companies?

Mr. FISHER. There are 229 such companies for which we have insured 50,340 mortgages in an amount of $225,146,000. Of these 50,430 mortgages, 32,908 were on new homes in the amount of $153,458,000, and 17,522 were on old homes in the amount of $71,688,000.

Mr. WILLIAMS. Tell us about insurance companies.

Mr. FISHER. There are 215 insurance companies for which we have insured 27,524 loans originated directly by them in an amount of $131,389,000. Of these 27,524 loans, 13,712 were on new homes in an amount of $71,649,000, and 13,812 mortgages were on existing homes in the amount of $59,740,000.

Mr. WILLIAMS. How about savings banks?

Mr. FISHER. There are 131 savings banks, for which we insured 10,047 mortgages in the amount of $44,500,000. Of those 10,047 mortgages, 4,801 were on new homes in an amount of $25,472,000, and 5,246 were on existing homes in the amount of $19,028,000.

Mr. WILLIAMS. And you have other institutions?

Mr. FISHER. Yes. There are 50 other institutions classified as "others."

Mr. WILLIAMS. You have a total of how many lending institutions whose mortgages you insure, and what is the total amount?

Mr. FISHER. Six thousand eight hundred and forty-nine lending institutions, with $1,529,109,000 in premium-paying mortgages or mortgages accepted for insurance outstanding as of December 31, 1938.

Mr. WILLIAMS. Where has the demand for refinancing mortgages on existing structures come from?

Mr. FISHER. From two principal sources. First, from those whose mortgages are expiring.

Mr. WILLIAMS. For what purpose do they want to refinance?

Mr. FISHER. They have to do so because they cannot pay off the mortgages. As the mortgages become due they have to be refinanced in 99 cases out of 100. These applications for refinancing come to the F. H. A. through lending institutions.

They want to refinance on the terms available under this act, a long term, if necessary, and, if feasible, at low interest rate, and on other reasonable terms.

A second source is those who are buying existing homes and have to finance their purchase. They want to finance the purchases to the best advantage. If they can get a higher percentage loan at a lower interest rate, they want it. When a loan is insured, the higher percentage loan and the lower interest rate are, as a rule, easier to get.

Mr. WILLIAMS. Have you any record to show the number of persons who have refinanced an old mortgage for the purpose of purchasing a new home?

Mr. FISHER. No.

Mr. WILLIAMS. You do not know how many have done that?

Mr. FISHER. No; our records do not show that.

Mr. WILLIAMS. The request for insurance comes to you through a lending agency and not from an individual, does it not?

Mr. FISHER. That is correct.

Mr. WILLIAMS. Have you anything, other than what the lending agencies tell you, to show the real purpose in refinancing these loans?

Mr. FISHER. No, sir.

Mr. WILLIAMS. Have you any record showing what has been done with the money when the old mortgages are refinanced?

Mr. FISHER. We tabulated some results with the cooperation of a lending institution in Washington. We made a sample study on several hundred cases to learn what they were doing. We found only a few where the mortgage that was being refinanced was in excess of existing indebtedness, and in those cases it was on account of improvements to the property. We found in most cases that expiring mortgages were involved. If they wanted to increase the mortgage, it was for the purpose of improving the property. They were not able to finance the mortgage in excess of the outstanding indebtedness without insurance. Though the mortgage was presumably a 60-percent one, in many cases the value of the property had declined from 1929, and they were not able to refinance without insurance.

Mr. WILLIAMS. Are these loans amortized or are they straight loans?

Mr. FISHER. We do not have that information. I could only give a personal opinion as to that.

Mr. WILLIAMS. Upon what would that opinion be based?

Mr. FISHER. Upon my knowledge of the mortgage market throughout the country and the type of mortgages that prevail in most sections of the country. I have in mind, for example, one section of the State of Ohio where practically all existing mortgages held by other than building and loan associations are of a short-term character and are carried as demand mortgages after a 1- to 3-year term has expired. Much of the refinancing of existing structures that we insure is from that kind of operation.

Mr. WILLIAMS. Do you find a tendency on the part of mortgage lenders and borrowers to amortize mortgages over long periods? Are you getting into the amortization loan rather than the straight loan business?

Mr. FISHER. Yes; decidedly so. Many lending institutions, since 1934, that never thought of making amortized loans, are now making them exclusively.

Mr. WILLIAMS. Is there any restriction on that sort of operation?

Mr. FISHER. I do not believe there is, generally speaking, except in the National Banking Act. I believe there are some restrictions for commercial banks also.

When I refer to institutions that have gone to an amortized-loan business I am thinking of some of the large savings banks in New York and in New England. As rapidly as practicable they are converting their portfolios of mortgages into amortized loans, while prior to 1930 they did not do much of that business.

Mr. WILLIAMS. Are the insurance companies doing that?

Mr. FISHER. Yes, sir; they are changing over rapidly. They have been for the most part pushing the amortized rather than the un-

amortized loans since 1923, when they began to make loans on small houses.

Mr. WILLIAMS. What are the mortgage companies doing along that line?

Mr. FISHER. I have not any specific information as to what they are doing. The mortgage companies, speaking of the country as a whole, tend to act as brokers and find the kind of loans for which they have customers. That includes many mortgages that are not amortized. I doubt whether the tendency to do an amortized-loan business is as pronounced with mortgage companies as with others.

Mr. WILLIAMS. Did you mean to infer that some provision of the national banking law prohibits national banks making amortized real-estate loans?

Mr. FISHER. Yes; that is my recollection. I believe the law permits the making of a more liberal mortgage loan on an amortized basis than on an unamortized one.

Mr. WILLIAMS. Is there any limitation in the States, generally speaking, as to the percentage of the mortgage with reference to the value of the property concerned?

Mr. FISHER. Yes: there is as to banks.

Mr. WILLIAMS. What is it?

Mr. FISHER. It runs from 50 to 60 percent of the appraised value of the property.

Mr. WILLIAMS. Is that a State law?

Mr. FISHER. Yes; with reference to State banks.

Mr. GIFFORD. What about national banks in that regard?

Mr. FISHER. There is a limit upon them. It is 50 percent of the appraised value of real estate offered as security [reading]:

> and no such loan shall be made for a longer term than 5 years; except that (1) any such loan may be made in an amount not to exceed 60 percent of the appraised value of the real estate offered as security and for a term not longer than 10 years, if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 percent or more of the principal of the loan within a period of not more than 10 years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of title II of the National Housing Act.

Mr. WILLIAMS. Under existing law an amortized loan beyond 50 or 60 percent is prohibited?

Mr. FISHER. Yes; with the exception of the building and loan association type of operation. In some States there are limits to the loan to value ratio for the building and loan associations. Those figures run as low as 66,666 percent and up to no limit whatever. Banks, trust companies, and other fiduciary institutions, except building and loan associations, are restricted in nearly every State to about 60 percent of the value of the property offered as security.

Mr. WILLIAMS. It would be a matter of State legislation to liberalize that law?

Mr. FISHER. Yes.

Mr. WILLIAMS. In connection with the mortgages on existing structures, can you say what part of those loans that have been refinanced have involved second mortgages?

Mr. FISHER. We have not the information as to that, except the small sample study we made here in Washington. In that study we found a considerable number of second mortgages.

Mr. WILLIAMS. In other words, the parties who had given those mortgages wanted to refinance in many cases.

Mr. FISHER. Yes; that is true.

Mr. WILLIAMS. Do you know in percentages to what extent?

Mr. FISHER. No. I would not want to even hazard a guess on the Nation as a whole. I think the motives that prompt those borrowers are these: One may have a short-term, 5-year first mortgage that is not amortized during the period of the second mortgage, which is amortized. He faces refinancing when he has paid off his second mortgage. He wants to wrap the indebtedness in one bundle and make all payments at one time and over a long period.

Mr. WILLIAMS. Have you anything to show who holds these second mortgages as a class, generally speaking?

Mr. FISHER. We have very little information about that over the whole country. They are taken, as a rule, by the seller of the property and they are discounted, as we say, "in the street." In other words, they are often purchased by individual purchasers and mortgage companies at a very high discount.

It may be of interest for the committee to know that here in Washington recently I visited a home that was for sale for $12,500. The builder offered to take $2,500 less if the buyer would get a F. H. A. insured mortgage and pay cash. He expected to refinance with the second mortgage, which he would have to discount by 20 or 25 percent.

Mr. WILLIAMS. Do you know to what extent that is done?

Mr. FISHER. No. We do not have any information on that as to the whole country.

Mr. FORD. When a mortgage is held by a mortgagee does he take the new mortgage, long-term mortgage, in lieu of his original mortgage?

Mr. FISHER. We do not have an exact record of that, but I think I would not be far off if I said that in a majority of cases it is rewritten by the same institution and insured on a long-term basis. We have many cases in which lending institutions have asked us to come in and examine their portfolios and insure the mortgages we find to be good insurance risks, in which case they were willing to rewrite the mortgages at a lower rate of interest.

Mr. WILLIAMS. When you do insure them at the time they are refinanced, do those institutions continue to hold those mortgages or do they dispose of them to the National Mortgage Association or others?

Mr. FISHER. Not many of them are sold.

Mr. WILLIAMS. Those companies keep them in their own portfolios?

Mr. FISHER. Yes; that is true.

Mr. WILLIAMS. Do you insure old mortgages? Can you do so under this law?

Mr. FISHER. No, we do not. I do not believe we can. We can give a commitment to insure, but we cannot insure.

Mr. WILLIAMS. When you go into an institution and find a mortgage that is all right, do you insure it without its being rewritten?

Mr. FISHER. No. The mortgages have to be rewritten on our own form.

Mr. WILLIAMS. May a mortgagor give a second mortgage when there is an outstanding insured mortgage?

Mr. FISHER. Yes. There is no way by which we can prevent that. The mortgagor makes a representation to the F. H. A. that at the time he is making the mortgage and asks us to insure it through a lending agency or institution, there is no standing indebtedness against the property and he has not incurred any other indebtedness in connection with the property; but after he has made the mortgage, it is insured and recorded and the property is his he can do what he wishes in connection with it.

Mr. WILLIAMS. I do not know about your ability to write into the mortgage that provision if you wanted to do it.

Mr. FISHER. We can make it due and payable if he puts on a second mortgage.

Mr. SPENCE. To what extent do you accept the appraisal of a local institution?

Mr. FISHER. We ask for those appraisals, but we do not show them to our examiners. Only our chief underwriter has access to the appraisal of the lending institutions. We make our own appraisals, and thereafter the chief underwriter can compare the appraisals of the lending institutions with our own appraisals.

Mr. SPENCE. After all the limitations of the law depend upon the appraisals, do they not?

Mr. FISHER. Yes. The law specifies that it shall be the Administrator's appraisal.

Mr. SPENCE. You did not give us a break-down of the entire mortgage insurance, those on existing and those on new structures. Have you the grand total?

Mr. FISHER. In connection with new homes we have insured 188,219 loans in the amount of $878,163,000; in connection with existing homes we have insured 175,687 loans in the amount of $650,945,000.

Mr. SPENCE. What is the proportion of loans on existing building to loans on new buildings?

Mr. FISHER. It amounts to 43 percent by amount.

Mr. SACKS. What is the percentage of arrearages or defaults in these existing mortgage loans?

Mr. FISHER. That we rewrite and insure?

Mr. SACKS. Yes. What are your defaults on existing mortgage loans?

Mr. FISHER. We do not have that record here. There are some cases in which we have insured mortgages on existing construction and a part of the proceeds of the insured loans has been used to pay off liens.

Mr. SACKS. What are your losses in connection with that kind of operation?

Mr. FISHER. Our losses are running about the same as they are in connection with insuring loans on existing structures.

Mr. FORD. Why is it desirable to extend loans on existing homes?

Mr. FISHER. As I conceive it, the purposes of the N. H. A. are to create and maintain a sound mortgage market and to facilitate the financing of home ownership on reasonable terms at reasonable interest rates, and for reasonable lengths of time, so as to enable purchasers to pay for their homes out of the value of living in their homes, out of the rent they would be paying.

Many of our citizens for many reasons, some of which are reasonable and necessary, and some by preference, buy an existing house rather than construct one. One of the reasons is that frequently more accommodation can be purchased for the dollar in existing than in new homes. I cannot see any excess hazard in the Government's insuring mortgages on existing construction. We have more than 10,000,000 homes occupied by those who own them, and these owners have to finance their ownership. If the F. H. A. is not permitted to continue to insure mortgages on existing construction, it appears to me to be perfectly inevitable that interest rates on mortgages on existing construction will increase and it will be impossible for purchasers to finance the purchase of existing homes on as liberal and reasonable terms as those on which they can finance the construction of new homes. In brief, those are the principal reasons why I believe it is desirable to continue to insure mortgages on existing construction.

Mr. BROWN. Can you give us the relative losses in connection with insurance on existing and new construction?

Mr. FISHER. I think I have that. The comparison I can make is not quite accurate, because for the first 2 years of our operations we were naturally insuring many more mortgages covering existing structures than we were insuring mortgages covering new construction. We have, therefore, a longer history in connection with insurance of existing construction than of new construction. Therefore, the comparison is not quite fair.

Through December 31, 1938, 435 properties had been acquired by the F. H. A., and of those 232 were sold, 98 being new construction and 134 existing construction.

In making allowances for differences in age distribution of these mortgages, it appears that mortgages on new construction are less apt to get into serious difficulty than are the mortgages on existing construction. If mortgages on new construction get into serious difficulty, they are less apt to go to foreclosure than are mortgages on existing construction.

If mortgages on new construction are foreclosed and the properties are turned over to the F. H. A., the loss to the Mutual Loan Insurance Fund is likely to be greater than would be the case with old construction.

There is some support, on the basis of a study already made, for the opinion that mortgages on new construction have a greater chance for default than mortgages on buildings from 4 to 7 years old at the time the mortgages were placed.

Mr. FORD. What is the age limit for a building in connection with which you would insure a loan?

Mr. FISHER. There is no limit. We lend on building so long as it is believed that the life of the building is 10 or 15 years longer than the life of the mortgage on it.

Mr. FORD. Do you take the location of a structure into consideration?

Mr. FISHER. Yes.

Mr. BROWN. You always send somebody down into my country before you make loans on property there—send them there to make investigation of the property offered for security.

Mr. FISHER. Yes; that is the practice.

Mr. BROWN. And your representatives talk to those who know something about the value of property offered for security?

Mr. FISHER. Yes. If the members of the committee would be interested in a description of the method used in investigating the security offered for mortgages, I would be glad to give it.

Mr. SPENCE. The present law was approved by the Federal Housing Administration when it was adopted, was it not?

Mr. FISHER. Yes; it was.

Mr. SPENCE. The Federal Housing Administration sponsored the provisions of the law, did it not?

Mr. FISHER. The Administrator said he was in agreement with them.

Mr. SPENCE. You have changed your mind with reference to the provision that permits you to insure loans on existing construction; is that not right?

Mr. FISHER. Yes; the Administrator said so.

Mr. SPENCE. Is that true of all connected with the Federal Housing Administration?

Mr. FISHER. It is difficult to answer that question. I will say that I myself have not changed my opinion as to that matter. I have always felt, and still feel as an individual, that we should insure existing construction. That is, though, my personal opinion.

Mr. SPENCE. Was there an effort at the time this existing law was adopted to make an exception of insurance on existing structures?

Mr. DAIGER. May I answer that question?

Mr. SPENCE. Certainly.

Mr. DAIGER. Sometime in the latter part of 1937 the President appointed a special committee, of which Mr. Eccles was chairman, to make proposals for new housing legislation in the light of the very severely depressed condition of business at that time.

Mr. SPENCE. Who else composed that committee?

Mr. DAIGER. I think the committee had six or seven members. Mr. Eccles was chairman; the other members were General Wood, of Sears, Roebuck & Co.; Sloan Colt, of the Bankers' Trust Co.; Henry Turner, of the Turner Construction Co.; Dr. Lubin, of the Department of Labor; Edward McGrady, former Assistant Secretary of Labor; and myself.

The housing program brought to you last year was developed by that committee and was presented by Mr. Eccles.

I think I ought to say that there was within the Federal Housing Administration a great deal of doubt as to the advisability of this recommendation that was made with respect to existing construction. I think it would also be fair to say that the recommendation grew out of what was, in my opinion at least, a mistaken notion as to how to stress the importance of stimulating new construction.

Therefore I would say that the support which came from the F. H. A. for this limitation on existing construction last year was one of cooperation with a committee report rather than of agreement with all its provisions.

Mr. SPENCE. What was the name of that committee?

Mr. DAIGER. It was an informal committee. The President has from time to time, beginning in 1934 when he appointed a housing committee under the chairmanship of Mr. Frank C. Walker, whose committee developed the original housing act, set up such informal committees.

Mr. SPENCE. Was that committee to study this question exclusively or other related questions also?

Mr. DAIGER. They were to consider means of stimulating new construction, and particularly means of stimulating a larger activity in the rental housing field, on which much stress was placed in last year's legislation. The first important consideration was a reduction in the financing costs. Secondly, the thought was to find a way to meet the needs of people who occupy rented houses.

Mr. SPENCE. Did that committee make a written report?

Mr. DAIGER. The recommendations of the committee were embodied in the President's housing message to the special session of Congress. It was the special message of November 27, 1937.

Mr. SPENCE. Did the committee make a written report?

Mr. DAIGER. My recollection is that a written report was made to the President and the President adopted certain suggestions in the report and incorporated them in his special message.

Mr. SPENCE. Was your report printed?

Mr. DAIGER. The President's message was printed.

Mr. SPENCE. Was your report printed?

Mr. DAIGER. It was not.

Mr. SPENCE. Is a copy of the report available to the committee?

Mr. DAIGER. The report was made to the President. I can say, as the result of my work on the committee and speaking from my recollection of the contents of the President's special message, that there was no substantial variation in the recommendations made in the report and in the President's special message.

That particular committee was appointed with reference to a condition in industrial activity and employment that existed in the latter part of 1937, and it dealt with means of coping with the industrial unemployment condition through the use, as far as possible, of existing mortgage financing machinery.

Mr. SPENCE. How much consideration, if any, did that committee give to the continuation of this particular provision of the law—the F. H. A. Act?

Mr. DAIGER. I think it would be fair to say that the committee gave relatively little consideration to a continuation of that provision. I might add that there was not a unanimity of opinion in the committee on that point.

Mr. SPENCE. Did not the President make this recommendation?

Mr. DAIGER. I do not think he recommended it. I think the President suggested that the Congress might consider the advisability of it.

Mr. PATMAN. The advisability of what?

Mr. DAIGER. My recollection of that part of the President's message is that——

Mr. SPENCE. I believe he recommended that it be not continued.

Did the report of the committee have any influence upon the President's view in regard to the continuance of this particular provision of the Federal Housing Act?

Mr. DAIGER. I would rather read what the President's message itself says about that. Here it is:

> In connection with these changes, I would suggest that the Congress eventually limit the insurance of mortgages to houses on which the application for mortgage insurance is approved prior to the beginning of construction.

The proposal for a July 1, 1939, date was——

Mr. SPENCE. If you strike out this date you would leave a permanent policy of the Government to continue to insure mortgages on existing construction?

Mr. DAIGER. Yes; that is true.

Mr. SPENCE. And that would be contrary to the views expressed by the President and Mr. McDonald, would it not?

Mr. DAIGER. Yes; it doubtless would.

Mr. SPENCE. Mr. McDonald says he wants this provision continued, but when this act was adopted he had a different view. What, if you know, caused the change in his views?

Mr. FORD. When the Federal Housing Administration was created was it not with the idea of stimulating new construction and thereby decreasing unemployment by causing increased production of building materials, and so forth, which would require more workers. Was not that the prime purpose of the act?

Mr. DAIGER. I can speak with some familiarity with that, because I was associated with the original committee and worked with the House committee here in connection with the legislation.

The legislation was not at any time projected as something to deal solely with the question of industrial activity and unemployment in the building field. It was projected in the midst of a severe depression in the mortgage market and at a time when it was virtually impossible to obtain mortgage financing and at a time when the activities of the Home Owners' Loan Corporation were nearing an end. We were undertaking to find means not only of reviving the financing of mortgages but also of eliminating the abuses and the excesses that had led to the mortgage situation with which we were confronted. So that what was done essentially was to develop in this legislation a new system of mortgage financing.

Mr. SPENCE. Was the committee unanimous in its opinion?

Mr. DAIGER. Do you refer to the committee of 1937?

Mr. SPENCE. Yes; the committee of 1937. Did that committee have a unanimous opinion?

Mr. DAIGER. It did not.

Mr. SPENCE. The members of that committee did not agree?

Mr. DAIGER. They did not.

Mr. SPENCE. Who entertained different views?

Mr. DAIGER. Mr. Spence, I should rather not go into that, if——

Mr. PATMAN. You are inquiring into how the President's committee stood in this matter. The President appointed this committee to report to him alone. No doubt this involves personal and confidential matter that the witness should not divulge. This is, however, only a suggestion, and if Mr. Spence insists upon an answer to his question, I shall not object.

The CHAIRMAN. I suggest that the gentleman get a copy of that record and show it to Mr. Spence.

Mr. PATMAN. As I understand, the President appointed this unofficial committee to act for him, to do what he did not have time to do; and I consider such a report to the President personal and confidential.

Mr. SPENCE. If you feel that answering would betray a trust, I do not want you to answer.

Mr. DAIGER. The only thing I might betray would be my own recollection.

Mr. FORD. The message suggested the limitation of money on existing mortgages, did it not?

Mr. DAIGER. It did.

Mr. PATMAN. The question goes to the matter of how different members of the President's own committee stood. That is what I have in mind; and I am not objecting to Mr. Spence's question.

Mr. WILLIAMS. Is the report of your committee available; can we get a copy of it?

Mr. DAIGER. The report, as I have said, was one that took the form of a memorandum, which Mr. Eccles and other members of the committee had before them when they discussed this matter verbally with the President. There was no formal report, as I recall, made to the President. A copy of that memorandum, I think, was left with the President.

Mr. WILLIAMS. How long did your committee consider this matter?

Mr. DAIGER. I do not recall. Probably it was a matter of several weeks; but all the members of that committee had some real familiarity with the questions they were dealing with; and some of the members of that committee, as you know, had been associated with this legislation from the outset in 1934.

Mr. WILLIAMS. Did your committee hold hearings?

Mr. DAIGER. No; this was a very informal committee.

Mr. WILLIAMS. You did not call anybody before the committee to give his views on the question involved?

Mr. DAIGER. No; we did not. The President asked for the suggestions of that group.

Mr. PATMAN. This law permits refinancing of H. O. L. C. loans, does it not? In other words, if I were to purchase a house having a H. O. L. C. loan, you could arrange to insure that loan, could you not?

Mr. DAIGER. Yes; if it were otherwise eligible.

Mr. WILLIAMS. But you do not do that, do you?

Mr. DAIGER. Yes; I believe that we occasionally do.

Mr. PATMAN. To what extent do you do that?

Mr. DAIGER. I could not tell you. I believe that if one of these houses is sold to a new buyer, a house on which the H. O. L. C. has a foreclosure, the——

Mr. PATMAN. Yes. In my home-town newspaper I find frequently a notice that Home Owners' Loan Corporation houses of such a description there are for sale. These agents are selected by the Home Owners' Loan Corporation to sell these houses upon which the Corporation has foreclosed. The purchaser of one of these houses, if he makes a sufficient payment and the loan is otherwise eligible, it may be insured like other loans; is that right?

Mr. DAIGER. Yes.

Mr. WILLIAMS. Is it not a fact that the Home Owners' Loan Corporation finances its own program?

Mr. PATMAN. It has desirable terms of its own?

Mr. DAIGER. Yes; of its own.

Mr. WILLIAMS. The Home Owners' Loan Corporation has as good terms, if not better terms, as the Federal Housing Administration.

Mr. DAIGER. I do not know its terms.

Mr. WILLIAMS. To what extent has the Federal Housing Administration insured Home Owners' Loan Corporation mortgages?

Mr. DAIGER. I doubt that our records would show that—that is, if you are referring to properties sold by the H. O. L. C. and financed elsewhere by the new owners.

Mr. WILLIAMS. Can you not give us that information?

Mr. DAIGER. I am sorry, but I cannot.

Mr. WILLIAMS. Does anybody in your organization know the answer to my question?

Mr. DAIGER. I could inquire about it for you. I should like to point out, however, that you are referring to a relatively insignificant number of properties. The situation with reference to properties sold by the H. O. L. C. is that, if the H. O. L. C. terms are more favorable than those offered under the National Housing Act, F. H. A. insurance would not be sought. The situation would be comparable to that of farmers who would go to the Federal land banks for loans rather than to some other source as long as more favorable terms were available through the Federal land banks.

The CHAIRMAN. Without objection, the committee will adjourn to meet at 10:30 tomorrow morning.

(Thereupon at 1 p. m., Tuesday, February 28, 1939, the committee adjourned, to meet at 10:30 a. m., Wednesday, March 1, 1939.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

WEDNESDAY, MARCH 1, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Gore, Mills, Martin, Folger, Hull, Wolcott, Gifford, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner, Miller.

The CHAIRMAN. The committee will be in order.

STATEMENT OF DR. ERNEST M. FISHER, ECONOMIC ADVISER, AND ABNER H. FERGUSON, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION

Mr. CRAWFORD. Mr. Chairman, I would like to ask Dr. Fisher a question, if I may. Dr. Fisher, I received in the mail this morning a statement of the Federal National Mortgage Association, dated December 31, 1938. It shows mortgages insured under the Housing Act, $80,210,947; notes due, May 16, 1943, $29,748,000; notes payable to R. F. C. $38,710,000.

In looking over what I understand is your answer to the brief submitted by the Building and Loan League, on page 2, under paragraph 3, I find this language:

> It should be noted that the Federal National Mortgage Association, is no longer operating on Government capital, but is borrowing its funds from private sources in the market, just as the Federal home loan banks are.

The question I want to ask is, are those 2 percent, series A notes guaranteed by the Government in principal and interest?

Mr. FISHER. No, sir; our general counsel says not.

Mr. FERGUSON. Not in any respect?

Mr. FISHER. They are obligations of the National Mortgage Association.

Mr. FERGUSON. The act provides that the National Mortgage Association may issue notes, bonds, or other debentures to the extent of its insured mortgages. It cannot have outstanding debentures in excess of the amount of the insured mortgages it holds, but those debentures are in no way guaranteed by the Government.

Mr. CRAWFORD. Now, with reference to the notes payable by the Federal Mortgage Association to the R. F. C., amounting to $38,710,000 as of December 31, is any of the paper issued by R. F. C. for the purpose of raising that $38,710,000 guaranteed in any way by the Federal Government as to principal and interest?

Mr. FERGUSON. I would say this, Mr. Crawford, I am not familiar with the balance sheet, and of course I am not familiar with all the details of the management of the Federal National Mortgage Association but I do know this, that they put out an issue of debenture of $29,000,000, which they sold in the open market at 2 percent. Now, they have begun to accumulate mortgages. They would just carry an open running account with the R. F. C. temporarily until they would get enough of those mortgages on hand to justify the issuance of another series of debentures. They did, on either January 1, or February 1, ask for subscriptions to a second issue of debentures of $50,000,000, and that issue was oversubscribed 27 times at an interest rate of 1⅝ percent per year, 5-year debentures, and I assume—and this is just an assumption—that that item of $29,000,000 in there was taken up by these debentures. I am quite sure it was simply a temporary transaction.

Mr. CRAWFORD. Then the security back of series A notes, 2 percent in the first case, and 1⅝ the second issue, are the mortgages which the National Mortgage Association holds?

Mr. FERGUSON. That is right.

Mr. FORD. They are not obligations of the Government?

Mr. FERGUSON. No; and I understand the only interest that the Government has in them is that they are backed by insured mortgages, but there is no guaranty of these debentures at all, and the only interest the Government has is that the Government insures the security for the debentures under the insurance division.

Mr. FORD. In other words, then, that mechanism enables the National Mortgage Association to borrow money on 5-year paper, is it, at 1⅝ percent?

Mr. FERGUSON. That is right.

Mr. FORD. About the same interest basis as the Federal Treasury can borrow money?

Mr. FERGUSON. That is right.

Mr. PATMAN. If this law were to be passed taxing all Federal securities, what would be its effect on this interest rate?

Mr. FERGUSON. It would be directly reflected in the sales price of the bonds, I would say—of the debentures. They are tax exempt now.

Mr. PATMAN. Well, if the bond is held in New York, the tax rate would be a certain amount; if it is held in Arizona or Texas or California, it is a different matter.

The CHAIRMAN. Not only is that true, but in fixing the interest rate they would not only have to calculate existing rates of taxation, but they would have to anticipate possible changes in the taxation rate, and also, of course, it would involve the expense of administration, so that when the Government got through it would be the loser by any possible operation that could be had in taxing these securities. That is where we would land.

Mr. PATMAN. The best way would be for the Federal Government to issue stock in the Federal Reserve banks and buy up all these securities; then there would be no question about it.

The CHAIRMAN. Does anyone desire to ask any further questions? If Dr. Fisher desires to say anything further we shall be glad to hear him.

Mr. BARRY. I would like to ask Dr. Fisher this question: under existing law can the Federal Housing Administration insure mortgages on properties that have been acquired by the Home Owners' Loan Corporation and then resold?

Mr. FISHER. There is nothing in the law to prevent that.

Mr. BARRY. Do you know if that has ever been done?

Mr. FISHER. I do not know of any case in which it has been done, but I have every reason to believe that there have been a few cases. I do not think they have been very numerous.

Mr. BARRY. I mean under the act the amortization period is about 15 years, and I think that by implication that corporation might place mortgages that do not amortize in 15 years. I do not know.

Mr. FISHER. The H. O. L. C. can offer practically as long a term, not quite as long a term, as the 20 years permitted under our act, but of course can offer any interest rate, I presume, that they wish on an obligation which they take in return for the sale of the property. So there would be few cases in which it would be advantageous to the borrower to get an insured mortgage. There might be a case where he could get a lower interest rate from a lending institution in some areas of the country. He might get a 4½ percent interest rate from the lending institution, but I think there are not many cases where we have insured mortgages on properties that have been foreclosed by the H. O. L. C. and later sold to another home purchaser. But I feel sure that if we went through the whole record we would find some.

The CHAIRMAN. Let me ask you, Dr. Fisher, are we to understand from your statement that the H. O. L. C. has a free hand in the matter of interest rates in negotiating the sale of property acquired by foreclosure? That is true, is it not?

Mr. FISHER. I take it that they have.

The CHAIRMAN. They are not in any way bound by the limitations of the law which is applicable to loans?

Mr. FISHER. That is right. That is my understanding of it.

Mr. FORD. They buy them at 10 percent down, leaving a 90-percent loan?

Mr. FISHER. They can take back a land contract or any contract for deed, as I understand it, with 5 percent down or 10 percent down.

Mr. FORD. Any amount?

Mr. FISHER. They can dispose of the property, I take it, as we can properties that we have taken over under such terms as seem to be desirable to the board.

Mr. FORD. They would make a contract where there is reasonable assurance of paying out, I take it?

Mr. FISHER. Yes.

Mr. MILLER. In connection with the 1 percent premium you were discussing on modernization loans, I have had quite a few letters from building and loan associations and banks and some real-estate men, all seeming to feel that 1 percent would make the amortization loan unattractive. Perhaps you have commented on that in one of the hearings that I missed; if not, I would like to hear what you have to say about it.

Mr. FISHER. We have discussed it, Mr. Congressman, in some of the hearings. The current discount rate which we permit on notes

insured under title I is $5 per hundred on a 1-year note, which makes an effective annual interest rate of 9.72 percent. If we were instructed to charge 1 percent per annum on the proceeds of the note, it would reduce the effective interest rate to about 7.8. We believe that they would still be very attractive to lending institutions at this rate.

Mr. MILLER. They would be less attractive to the lending agency than to the borrower.

Mr. FISHER. Correct. I believe that with many lending institutions they would still be attractive; in fact, we have discussed the question of premium rate with many of the lending institutions, and we have not yet met any very strong opposition to it. They would prefer, I think, naturally, to have the free ride.

Mr. FORD. However, when we come to consider that, I wish that Mr. Fisher or somebody would put into the record just what safeguards they are going to through around title I, if it is enacted.

Mr. FISHER. Well, I would have to ask the Administrator to prepare a statement giving you that information.

Mr. FORD. I would like to have that.

Mr. MILLER. To keep dogs and cats out.

Mr. FORD. To stop jerry building.

Mr. WOLCOTT. What do you mean by that, Mr. Ford, "jerry building"?

Mr. FORD. Well, if a contractor goes out and buys some lots for a few hundred dollars and gets some fellow that wants to build a little house, he puts up a $2,000 house on it and puts in the lot at $800 and borrows $2,500 on the property. Then he is clear. He puts this fellow in the house on a small payment down, $25 or $50, whatever the fellow has got, and he takes a second mortgage for the difference between the loan and the selling price. He builds a shabby house because there is no inspection or regulation. Now, if the F. H. A. is going to charge a premium on this loan I think they ought to also exercise at least a minimum of inspection to see that this building is built in accordance with sound construction principles and that they exercise some discretion as to its location and the character of the improvements.

Jerry building is merely putting a lot of cement and steel wire and second-class lumber together and making it look like a house.

Mr. KEAN. May I ask a question on title I? I notice in title I that the figures put in the committee print of the proposed amendment names the date February 3, 1938, as the date upon which the amount of reserve should become cumulative. If we are renewing this act, is there any reason why we should give the benefit to the bank of having it cumulative back to February 1, 1938? Could we not make it some date about the present, and not give them that additional cumulative feature?

Mr. FERGUSON. You mean on the insurance reserves?

Mr. KEAN. Yes.

Mr. FERGUSON. That is clearly a question of policy. Of course, we do have this difficulty about it, that we already have three separate sets of reserves on different classes of loans, and it does create quite an accounting problem to consider them all. Of course, it depends on the viewpoint. If you want to substantially encourage these loans, then you are going to do that by permitting the lending institutions to utilize their reserve already built up over the past year.

If you do not want to encourage it, if you just want to let it fight its way through, then the thing to do would be to start a new reserve where they would have nothing to build up. In other words, here is what I mean by that. If a bank has made, during 1938, or since last February, $100,000 of these loans, they have what we call a "reserve" of $10,000. That means that we pay their losses in full up to $10,000. It is not 10 percent of each loan; it is 10 percent of all the loan business. Now, that bank would be much more anxious to go into new loans from now on if it could charge its losses on its new loans, as well as its old loans, to the $10,000. If it builds up a new reserve it would have to build up another $100,000 before it has that fund. That is the only point.

Mr. KEAN. My purpose in suggesting that is that I have a good deal of sympathy with Mr. McDonald's statement that he has gotten to the position now where he wants to encourage the banks to make loans without guarantee; therefore, I think your 1-percent charge, plus changing this date to, perhaps, March 1, 1939, or sometime around now, might make it a little more difficult for the strong banks, and might make a strong bank feel that they wish to make their loans themselves.

Mr. FERGUSON. I think there is a good deal in what you say, for this reason: I think a majority of the banks who have operated under title I, and who never have made these long installment loans before that, would not continue to make them if they could do it under the State law. The national banks could not make these loans now without the insurance, and there are complications in the State laws in practically every State in the Union in connection with the limit of the amount, the length of time for which they can make such loans, the rate of interest they can charge, and many other considerations which make this type of loan impracticable to them under present loans. At the present time there is enabling legislation in every State in the Union which permits them to make these loans only if they are F. H. A. insured loans.

Mr. KEAN. Would you have any objection to such an amendment?

Mr. FERGUSON. I would not; no.

Mr. MILLER. Along the line of that same amendment, may I ask, on page 2, starting with line 3——

Mr. FERGUSON. Would you wait a moment till I get that?

Mr. MILLER. I do not think you really need it. I am not going into details, but simply the disaster loans, if you want to call them that, is that going to be overlapping in any way?

Mr. FERGUSON. No; what that does—you remember after the serious floods of 2 or 3 years ago there was an act passed authorizing the creation of the Disaster Loan Corporation in the R. F. C. to help rebuild the flooded areas, and also we were authorized to insure loans for the rebuilding of them. Then we were also authorized to insure loans for the rehabilitation of the flooded areas on terms somewhat more liberal than the other act. We went back into the reserves, for instance. Now, this act incorporates the disaster loan provision, insofar as we are concerned, into this regular title I, and repeals the Disaster Loan Act, insofar as our operation is concerned, the other words transfers it from one section of the act to another.

Mr. MARTIN. Mr. Chairman, I would like to ask Dr. Fisher a question on the guaranteeing of mortgages on property. I think that

when the crash came in 1929 which resulted in the wiping out of real-estate values and a general loss of confidence on the part of the public, the guaranteeing of mortgages by the Federal Government on existing home loans performed a valuable and needed service as an emergency measure. Its beneficial effect was unquestionable, but at the present time do we not have an entirely different picture. The building and loan and other loaning agencies appear to have ample resources for all demands. During the F. H. A. activities these agencies have readjusted their entire set-up by liberalizing their regulations and lowering their interest rates, to establish a competitive basis for F. H. A. In view of these facts then, are not these agencies now capable of rendering all the service necessary at the reduced rates, and should not the F. H. A. discontinue this particular practice of insuring mortgages on existing homes?

Mr. FISHER. Your question, Congressman Martin, goes to the roots of the problem of a sound mortgage market. It is true that for the time being there are adequate funds in the market to finance home ownership on both existing and new construction, at reasonable interest rates. One of the purposes of the creation of the Federal Housing Administration was to aid in creating a market wherein funds were available, and to make funds available at a reasonable interest rate. Now, if we concede that for the time being there are adequate funds—and I want to return to that in a moment—we have no assurance that the time will not come again when we will face a situation similar to that faced in 1930, when foreclosures began to accumulate and the crash became imminent in property values.

One of the advantages to a lending institution in insuring a mortgage is that it never has to take over real estate that stands as security for the mortgage. If it has to foreclose on the real estate it can exchange the real estate for liquid debentures of the mortgage insurance funds of the Federal Housing Administration, so that it can keep its portfolio in liquid position even in times of crash.

With respect to the current availability of funds to finance the purchase and ownership of existing construction, the situation is not quite so clear as it would seem. As long as the Federal Housing Administration is permitted to insure mortgages on existing construction, we have no concern about the availability of necessary funds. If we lost the power to insure on existing construction, on the first of July, so far as we can determine, commercial banks (both national and State), and in most States savings banks and life-insurance companies would no longer be legally able to make a loan in excess of about 60 or 66⅔ percent. So that the financing of a mortgage on existing construction in excess of 66⅔ percent would have to depend primarily upon the building and loan associations, principally the Federal Savings and Loan Associations, with the exception of some 30 States where State chartered building and loan associations are authorized to make more than a 66⅔ percent mortgage. So we are not certain that, if the power to insure existing construction expires on July 1, there would be adequate funds to finance existing construction with a sufficiently high percentage loan to prevent the return of the second mortgage with its high interest rate. In many sections of the country we are certain that that would not be true.

There are three States, and there perhaps are others, that are adequately served—that is, are sufficiently adequately served—by building and loan associations, to take care, at least in large part, of the problem for the time being on existing construction-mortgage financing. I refer to Ohio, Pennsylvania, and New Jersey, and there may be other States; but, as pointed out in the memorandum which we gave to members of the committee this morning, already after 4 years of operation the Federal Housing Administration has insured mortgages in eight States in an amount in excess of the total assets of building and loan associations in those eight States. So there are many sections of the country, and particularly many sections of the country where very high interest rates have prevailed in the past, prior to the passage of the National Housing Act, that we feel perfectly confident would not be adequately served with first mortgage money on existing construction in an amount which would enable people to carry their ownership of existing construction without resort to the second-mortgage market, with all of its attendant bad features.

That is one statement that I wanted to make yesterday and did not have time to make, and I am glad your question brought it out.

Mr. MARTIN. Do you think the time may come when we can get out of this guaranteeing of mortgages?

Mr. FISHER. Well, if I may speak as an individual and not as the representative of the Federal Housing Administration on that, speak personally, as one who has, if I may say so modestly, studied the real-estate market in this country for the past 20 years, principally as a scientist in a university, I hope that the Government will never get out of the business of insuring mortgages, because it is a device which removes many of the curses that have lain on the real-estate market ever since I have been observing it, and from the observation I have made of historical records, have lain on the real-estate market since the foundation of our country.

Mr. CRAWFORD. Would that same statement that you have made apply to the effect which the passing out of the Government would have on the creation of new loans? Or would it apply there?

Mr. FISHER. We feel that it would, particularly since the discussion of these amendments has arisen. There have been many people who have come to us to discuss these proposed amendments before they were introduced, and everyone who has come to us has said, "If you do not continue to finance existing construction, it is going to slow up the building of new homes." A builder from San Francisco, who built several hundred homes last year, testified before the Senate committee that 40 percent of his buyers are people who sell existing homes in order to move into his new homes. We have no general figures on that over the Nation as a whole, but we do feel, after discussing it with a great many responsible real-estate men, that that would be the case in most areas. It would tend to deter new building. In the letter, a part of which Mr. McDonald read, from Mr. J. C. Nichols of Kansas City, who is a very distinguished citizen, as well as an excellent real-estate operator, Mr. Nichols said he had changed his mind in the last year with respect to the insurance of mortgages on existing construction, notwithstanding the fact that he owns a considerable inventory of new construction and is constantly building. He believes it would be an unwise policy if the

Federal Housing Administration did drop out of existing construction mortgage insurance.

There is one other point that I should like to make in reply to Congressman Martin's last question, with respect to whether the Government should get out of the insurance of mortgages. We have made the most careful actuarial estimates that it is possible to make from the present information available with respect to mortgage experience. We have talked to a large number of life-insurance companies, mortgage lenders, building and loan associations, and bankers, and have tried to be realistic in our calculations. And from the conservative calculations that we have made we feel perfectly confident that the insured mortgage program after another year, or possibly two, of operation will not cost the Federal Government a cent. I cannot give you any personal guarantee of that that would be worth anything in the financial market, but I can say that, on the basis of the most careful actuarial calculations, the Federal Housing Administration will be able to pay its operating costs, its losses, and stand on its own bottom as soon as we have passed another year of operation, or a little more, perhaps, than one more year.

If the Government can afford to borrowers, to home owners, the type of analysis which the Federal Housing Administration makes of the transaction, and can offer counsel to the home owner when he is purchasing his home, as to whether it is a reasonable transaction and whether he is overbuying, overmortgaging his future—can prevent a collapse of real-estate values such as that which arose in 1930 and has arisen in several other instances in our history, by preventing the lending institutions from having to take over frozen real estate—if the Government can do these things without any major expenditure on the part of the Government, it seems to me the Government will be doing a major service. And furthermore, this service is without competing with any private lending institution, because we cannot compete—we can only offer the facilities with which every type of lending institution can compete with every other type of lending institution.

Mr. GIFFORD. Dr. Fisher, can you answer the question that has been raised by the savings and loan institutions that they are being hampered and injured in their activities by these F. H. A. insured mortgages?

Mr. FISHER. Yes; I believe I can.

Mr. GIFFORD. That is the statement of Mr. Bodfish.

Mr. FISHER. Yes; I believe I can. I think the answer to that statement is found in the fact that the activities of the Federal Housing Administration have resulted in a lower interest rate on first mortgages than this country has ever seen, over the country as a whole; and that lower interest rate, I believe, the building and loan associations, as represented by the officers of the Building and Loan League, feel is a lower interest rate than they can successfully compete with. That argument seems to me to be a bit specious, because the shares of the building and loan associations are insured, if they are insurable, by the Federal Savings & Loan Insurance Corporation. They compete, therefore, for money in the market on practically the same basis as insured banks in our commercial banking system. The deposits are insured and the shares are insured; and I do not believe that a differential of more than, well, 3 percent,

it would be—if you pay 2 percent for your money and lend it at 5, I do not believe that is greater than is necessary for operations.

So, in my opinion, Congressman Gifford, the hampering that we have done to the building and loan associations has been in respect to restricting the interest rate which has to be paid by borrowers of home-mortgage money in the market, particularly in areas where high interest rates have in the past prevailed.

I should like to say also, however, that there are many building and loan associations of which we have record who we do not believe would subscribe to the statement in the brief.

Mr. GIFFORD. What I wanted to bring out is that the representatives of our cooperative banks, as we call them, came to Washington very much exercised over the activities of the Federal savings and loan institution. This committee set up the Federal loan agency that it could be operative in sections where there was lack of banking facilities. Instead of that, some in sections well served took advantage of it to loan at a lower rate, and took away business from the existing cooperative associations which were doing very well. These people came to Washington in force, remonstrating, saying that that activity furnished unfair competition. Now, Mr. Bodfish, representing the savings and loan institutions, does know what he is talking about, and it should be a persuasive argument coming from that source.

Mr. FISHER. Mr. Gifford, I did not mean to give the impression that I think Mr. Bodfish does not represent building and loan associations. I meant to infer, if I did not say directly, that I do not believe he represents the unanimous opinion of building and loan associations. I have a list here——

Mr. GIFFORD (interposing). It places the committee in a most embarrassing position in trying to protect cooperative banks. These people state publicly that we are acting against the interest of the people in preventing them from getting lower rates of interests, and that we had set up machinery that would result in lower rates. I am embarrassed. So will other members be when called upon by their various banking institutions to protect them against what might be termed by opponents as favorable to the interests of the people. If we are setting up things here that are to disrupt conditions now favorable that is one thing; if we are going to help communities that need banking facilities that do not have sufficient facilities, I have no objection to that.

Mr. MILLER. Of course, in extending the power of the Administrator to insure mortgages on existing construction, you are not giving him any additional or new powers; you are only extending the powers that he has now, which expire by limitation.

Mr. GIFFORD. You heard my suggestion yesterday that when cooperative institutions do encourage mortgage insurance, we must assume that such mortgage would be doubtful, if it could be insured, it would be very nice for the mortgagee institution. I understand that about 10 percent only of the savings and loan institutions mortgages have gone through the F. H. A.

Mr. FISHER. The statement is made in Mr. Bodfish's brief that about 10 percent of the total loans, as I remember it, of the building and loan associations last year were insured.

Mr. GIFFORD. Do you challenge that statement?

Mr. FISHER. I have no basis on which I can challenge it; no, sir. I do have with me a number of copies of a list of fifteen hundred-and-some-odd building and loan associations for which the Federal Housing Administration has insured loans, and these are arranged by States. I thought it might be of interest to some members of the committee to have a copy of that so they could see what building and loan associations in their States have insured mortgages with the Federal Housing Administration.

Mr. FORD. How many building and loan associations are there in the country, about?

Mr. FISHER. I believe the last report of the Building and Loan League shows between 9,000 and 10,000.

Mr. MILLER. Can you sum up in a brief statement the advantages to the borrower of these insured loans, providing there is a reasonable income and that his mortgage is reasonable and all the rest of it, and it is a desirable proposition? Why should he pay to have that loan insured? That may be a foolish question, but it is not clear to me.

Mr. FISHER. It is difficult to answer that question briefly, because I always think of better arguments after I have finished than I do while I am making the statement.

Mr. MILLER. I would like to have a fairly brief answer to that if you can give it.

Mr. FISHER. Well, I am perfectly willing to make the best statement I can.

In the first place, he gets the analysis of the Federal Housing Administration underwriting staff, which consists of at least four persons who are specialists in certain aspects of the deal, an architect, an appraiser, and a credit risk examiner, and a chief underwriter who puts the whole mortgage pattern together. So that the borrower gets an analysis of the transaction from his point of view from a disinterested party as to whether he is entering into a reasonable deal. He will get a single mortgage which wraps all of his payments, including taxes, interest, amortization, hazard insurance, up into one monthly payment, and he can make that payment month to month and never worry about taxes or any of the other charges. He can get it usually for a longer term than he can get it without insurance, which, of course, makes his monthly payments more easy to carry.

I have talked with some of my friends in Washington who have asked me about the insured mortgage plan, and after explaining to them what we do in analyzing a transaction, some of them have expressed an interest in getting an insured mortgage, even if it cost them a little more than they could get without insurance.

Mr. JOHNSON. May I ask Dr. Fisher, do you have any figures which would indicate the source of the applications that have been rejected, whether there is any greater percentage of rejections from one class of those authorized to make loans than there is from another?

Mr. FISHER. Yes, we have those figures, Congressman. I do not have them with me.

Mr. JOHNSON. Do you have in mind whether they are about the same or whether one group would have a higher percentage of rejections than another?

Mr. FISHER. I would rather consult the record on that and either place my answer in the record or send it to you.

Mr. JOHNSON. I wish you would put it in the record.

Mr. FISHER. I will be glad to.

(The matter referred to follows:)

Ratio of mortgages rejected to total mortgages selected for appraisal by type of lending institution from whom application was received[1]

	Percent
National banks	27
State banks	25
Building and loan associations	34
Mortgage companies	30
Savings banks	17
Insurance companies	28
Other types	41
Average	29

[1] Complete tabulations of rejections by type of lending institution from whom application was received have not been made. These ratios apply to a sample consisting of all mortgages selected for appraisal and processed during the last 6 months of 1938. These ratios may be characterized as "gross rejection and withdrawals ratios." They include voluntary withdrawals of applications by the lending institutions. Further, many of these cases that appear first in this gross rejection ratio are subsequently reopened and the terms of the mortgage requested by mortgagee and borrower modified in such a way as to make it acceptable for insurance.

NOTE.—The net rejection ratio for all types of lending institutions cumulative through December, 1938, is 21.1 percent. Adjustments in this figure are made for the reopened cases which are originally rejected but subsequently modified in such a way as to make them eligible for insurance.

Mr. LUCE. Mr. Fisher, what is the purpose of this voluminous document that you have asked go into the record?

The CHAIRMAN. Let me make a suggestion about that. It seems to me this is so voluminous that we should place in the record a summarized form, if you can.

Mr. LUCE. My question can be simplified. Why?

Mr. FISHER. It occurred to us that members of this committee might be interested in seeing the list of building and loan associations in their own States who have insured mortgages with the Federal Housing Administration.

Mr. LUCE. What does it show? What does it prove?

Mr. FISHER. I think it shows details with reference to the statement made in the memorandum on the brief which we sent to you this morning; that is, that there are many building and loan associations in the country who are participating in this program, and from many of them we have testimony on file to indicate they are not doing it reluctantly.

Mr. LUCE. What is the object of it? What is the value to us?

Mr. FISHER. I do not know, sir. We just thought it might be of value to you. Maybe we made a mistake in judgment.

Mr. LUCE. No; I am simply groping in the dark. I wondered why it was. What is the purpose of it?

Mr. BROWN. It goes to show that these agencies are not opposing the F. H. A.

Mr. FISHER. At least, not unanimously.

Mr. LUCE. Of what importance would the establishing of that fact be?

Mr. FISHER. That is a question which I think only the members of this committee themselves can answer. We felt that it might be a consideration which you would want to bear in mind; that in reading

the brief which was presented by the officers of the United States Building and Loan League you might be interested in considering the question of whether it represents the unanimous opinion of building and loan officials throughout the country.

Mr. LUCE. On what?

Mr. FISHER. In opposition to the amendment that we are proposing.

Mr. HULL. I have made a hurried check of this list, of the building and loan associations in my district that are listed, and I find that I have received telegrams from everyone of them stating their opposition to the continuation of the act.

Mr. GORE. You suggested, Mr. Chairman, that a summarization of this document be placed in the record. I am unable to see how it can be summarized.

The CHAIRMAN. Yes; I think you are right. I had not read it when I said that. I think we should keep it out of the record, but let it be available. I do not think it need to go into the record.

Mr. WOLCOTT. Mr. Fisher, you recommend that we raise the amount from 3,000,000,000 to 6,000,000,000. Will you tell us why the Administration recommends that at this time?

Mr. FISHER. I made a statement during the opening hearings with respect to that, but I did not have time at that particular hearing to develop it very fully. At the present rate at which the Federal Housing Administration is doing business, it will probably be during the fiscal year, 1940, or possibly in the early part of the fiscal year, 1941 (we cannot predict accurately), that we will reach a volume of business which will prevent our consideration of further new business.

Mr. WOLCOTT. You have done $1,115,000,000.

Mr. FISHER. $1,650,000,000 approximately under section 203. I have the exact figures.

Mr. WOLCOTT. Then you have used approximately half of the authorization?

Mr. FISHER. That is correct, with reference to section 203 only.

Mr. WOLCOTT. And you ask for double the present authorization?

Mr. FISHER. That is right.

Mr. WOLCOTT. Now, do you expect that in the next year your activities will be doubled?

Mr. FISHER. The question is not solely that. We expect that during the next year we will probably be asked to appraise new construction mortgages amounting to approximately $1,000,000,000. If existing construction is left in the act, that amount will probably be exceeded. The point at which we reach the limit is when we have received the $3,000,000,000 worth of business, not after we have insured $3,000,000,000 worth of business. So it is likely that within the fiscal year, 1940, or early in the fiscal year, 1941, we will reach the point where we will have to say, "We have got as much business in our shop as we can insure, and after we have eliminated that, then we will take some more."

Mr. WOLCOTT. At the present time, in addition to this $1,650,000,000 which you have actually insured, what is the aggregate amount of your applications, pending applications?

Mr. FISHER. I will have to refer to my book to get that.

Mr. WOLCOTT. That $1,650,000,000 insured, represents how many mortgages?

Mr. FISHER. That represents about three-hundred-and-some-odd thousand. I believe it would take me several minutes to answer your question accurately. I see what you are trying to get at. I will be glad to give you the figures, but I hate to hold the committee up to look them up here. You want the amount actually in our office, but not committed on?

Mr. WOLCOTT. The pending applications. So that if you were to insure all of your pending business, how much authorization would you have to have? Then we perhaps could arrive at the amount that you need, by determining what percentage of your applications have been insured.

Mr. FISHER. We have insured about 70 percent of the applications which we have selected for appraisal. Thirty percent have been rejected, withdrawn by mortgagees before accepted for insurance, or have expired after acceptance for insurance. If you add the cases in process to the total amount that we have insured or committed to insure, the total amount would approximate $1,840,000,000 as of December 31. I will be glad to give you the exact figure.

Mr. WOLCOTT. I wish you would. That bill gives you a billion dollars of leeway.

Mr. FISHER. Yes, sir.

Mr. WOLCOTT. How can we justify raising this to six billion under these conditions?

Mr. FORD. He is asking for an amount to meet probable demands.

Mr. WOLCOTT. How long have you been in business?

Mr. FISHER. We have been insuring mortgages for nearly 4 years, not quite 4 years. We are coming certainly into an active building season, and it is almost certain that the rate at which we will do business during the next fiscal year will be equal to or greater than the rate at which we have been doing business during the last fiscal year.

Mr. WOLCOTT. You do not expect to do three times as much business in the next 2 years as you have done in the last 4 years, do you?

Mr. FISHER. I should not be at all surprised if we did. During the last calendar year we did nearly twice as much as we did the previous calendar year, and in the calendar year previous to that we did nearly twice what we did the previous calendar year. That is, our business has been accumulating at a very rapid rate. That is only a part of the answer, however. As I see it, the administrator was faced with two alternatives. One was to ask that the amount be extended by $1,000,000,000 or $2,000,000,000. The other was to ask that it be extended by $3,000,000,000, which we estimate is the ceiling which the Federal Housing Administration would ever have to ask for. Now, we are not promising it, but we estimate that that is what it will be.

Mr. WOLCOTT. When do you expect to reach the saturation point?

Mr. FISHER. In building? I wish I could answer that.

Mr. WOLCOTT. Then why, if your business is doubling every year——

Mr. FISHER (interposing). You mean the saturation point in our business?

Mr. WOLCOTT. Yes.

Mr. FISHER. You mean the peak, the most rapid rate at which we will acquire business?

Mr. WOLCOTT. No, I mean by the saturation point the point where you will start slumping off, so there will be no further demand.

Mr. FISHER. That is very difficult to predict.

Mr. WOLCOTT. Then how can you predict that six billion is going to be your maximum?

Mr. FISHER. We took some calculations into consideration. During the past year we have insured, so far as we can estimate, new-home mortgages on about 40 percent of the new one-to-four-family houses built in this country. We should not be surprised to see the total volume of new one-to-four-family houses rise considerably above last year during the current year if there are not adverse changes in the general economic or international situation during the next year. We have built during the year 1938 approximately 340,000 dwelling units in the country. During the boom period of the twenties we built an average of 700,000, as nearly as can be estimated. During the year 1925, we built about 900,000. So it would seem reasonable to suppose, in the light of those figures, and in the light of the figures of the probable increase during the next decade in the number of new families which will be created, and have been either created or their creation has been deferred because of economic conditions since 1930, that building of homes will increase. Taking those facts into consideration it would seem reasonable to expect a large building program to be under way. It may reach 500,000, 600,000, or even 700,000 dwelling units a year. We shall probably reach the peak volume of our business when the peak volume of building is reached.

Mr. WOLCOTT. Unless the policy of Congress changes with respect to our contingent liability it will be more difficult to reduce that than it would be to increase it, and I wonder if it is good, sound business for us to increase the potential contingent liability of the Government by $3,000,000,000 without more justification for it than you have been able to make out. It necessarily has an effect upon our entire economy and we should proceed rather cautiously. The mere fact that you might be able to use it is not justification enough because if that was the case, then you might ask that we grant $10,000,000,000 with just as much logic as you ask that we grant $6,000,000,000. What I have in mind is that we are asked to establish a potential contingent liability of at least $3,000,000,000 in excess of present authorizations, and then virtually abandon control over that contingent liability. I wonder if you have actual figures upon which to base your contention that you really need $6,000,000,000, or whether you have given us that figure in the hope that we might raise it a billion or a billion and a half over present authorizations. In other words, a man asks for a loan of a thousand dollars in the hope that he will get a couple of hundred. You are asking for $6,000,000,000, perhaps with the thought that you will get a couple of billion.

Mr. FISHER. No, Mr. Congressman, we would not trifle with a committee of Congress in that way. We are perfectly frank and honest in asking for a limit of $6,000,000,000.

Mr. WOLCOTT. When appearing before this committee previously we have always respected the integrity of the Board and the judgment of the Board and of the members that have come down here

representing the Administration, and it seems to me a little bit out of keeping with your custom in that respect to ask for this figure which you have not been able to justify.

Mr. FISHER. Well, I have given you some of the figures on the basis of which I felt that we were justified. Others I have not gone into. We find that the total mortgage indebtedness on one- to four-family homes in the country is, according to the Home Loan Bank Board, about $17,000,000,000. If you add the apartment houses of the country, it will probably almost double that figure. We have felt that the Federal Housing Administration has passed its testing period; that we would come to you now with a history, with a record that would indicate not only the volume of business which we are doing and might be expected to do, but something with respect to that contingent liability; not that we can stand indefinitely on the very low foreclosure record that we have had, but there is a history behind it.

As the Administrator has said, I believe to the Senate committee, we feel certain, as morally certain as possible, that we will need more funds within the next fiscal year, or perhaps a little after the next fiscal year. The alternative that faced us, therefore, was to ask for an increase in our total authorization, or to come back again later. We wanted to ask for enough so that we would not have to come back in another 2 years, or 1 year, and ask for another increase in the total amount authorized.

The CHAIRMAN. We will ask you gentlemen to come back tomorrow morning at 10:30, and without objection the committee will now stand adjourned.

(Whereupon, at 12 o'clock noon, the committee adjourned until 10:30 a. m. Thursday, March 2, 1939.)

AMEMDMENTS OF 1939 TO NATIONAL HOUSING ACT

THURSDAY, MARCH 2, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Gore, Mills, Martin, Gifford, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner.

The CHAIRMAN. The committee will be in order. Dr. Fisher and Mr. Ferguson are with us again this morning.

STATEMENT OF DR. ERNEST M. FISHER, ECONOMIC ADVISER, AND ABNER H. FERGUSON, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION

Mr. FERGUSON. Mr. Chairman, may I make just a brief statement at this time in connection with section 2 of the committee print, section 3 of the bill as introduced. I want to ask that the committee strike that amendment out.

The CHAIRMAN. Which amendment is that?

Mr. FERGUSON. That is section 2 of the committee print, section 3 of the bill. It is the paragraph which reads:

> Have been made or assigned to, and be held by, a mortgagee, approved by the Administrator as responsible and able to service the mortgage properly.

I think that tends to confuse rather than to clarify, and I ask that the committee strike that from the bill.

Mr. BROWN. You want all that stricken out?

Mr. FERGUSON. Yes, sir.

The CHAIRMAN. Well, we will have to discuss that when we get to it.

Miss SUMNER. You say you want to strike out that whole section?

Mr. FERGUSON. Yes, Miss Sumner.

The CHAIRMAN. Mr. Williams has some questions that he wishes to ask Dr. Fisher, if other members have finished.

Mr. WILLIAMS. I am not sure yet, Doctor, that I have all of them in mind, and it may not be clear in the record just exactly what your operations have been, how much has been involved altogether. Can you state that?

Mr. FISHER. Through December 1938, we had insured 1,833,185 notes.

Mr. WILLIAMS. You say 1,000,000 or 1,000,000,000?

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Mr. FISHER. 1,833,185 notes under title I. The total amount was $733,350,548. I have the break-down here under the original act and the amendments, if you wish.

Mr. WILLIAMS. Have you the break-down as to what part of that is for renovation purposes, remodeling and improving existing structures.

Mr. FISHER. Yes, sir; we have that.

Mr. WILLIAMS. I would like to have that. Of course, now, so there will not be any confusion about that, we are talking about Title I?

Mr. FISHER. Yes, sir; we are talking about title I only, and this is a tabulation of the type of improvement by type of property insured through December 1938.

Mr. WILLIAMS. Just in general, have you got that, so far as improvements are concerned? I mean by that, the renovation and remodeling of existing structures. Do you have that broken down as to residential property and business concerns?

Mr. FISHER. Yes, sir; that is what I have here. The figures that I just gave you for total volume is the entire program.

(The matter referred to follows:)

Of the $560,603,240 in fact amount of notes insured under original title I, prior to April 1, 1937, $355,497,000 were for the purpose of financing "additions, alterations, and repairs."

Of this amount $281,919,000, or 79.3 percent, was used for improvements to residential properties.

The types of residential properties and the amounts for additions, alterations, and repairs under each are as follows:

Single-family residential	$206,396,000
Multifamily residential	67,004,000
Farm residential	8,519,000
Total	281,919,000

In addition to the $281,919,000 in additions, alterations, and repairs to residential properties, an additional $130,587,000 in notes for the purpose of installation of machinery and equipment were used for residential properties, making a total of $412,506,000 of the $560,603,240 that was used for modernization and improvements to all classes of residential properties. The balance of $148,097,240 were for improvements and installation of machinery and equipment in connection with commercial and other types of properties.

Mr. FISHER. Under the act, as amended in February 1938, the total number of loans insured to December 31, 1938, is 374,976, in an amount of $171,718,626. Of this amount and number, 272,545 were improvement of single-family urban dwellings, in an amount of $107,723,629.

Fifty-nine thousand nine hundred seventy-four loans for $33,595,809 were for the improvement of multiple-family dwellings.

Thirteen thousand seven hundred eighty loans for $14,660,267 was for improvement of commercial and industrial properties.

Thirteen thousand seven hundred eighty loans for $14,660,267 were for improvement to farm dwellings and buildings.

All other property accounted for 13,552 loans, in an amount of $8,604,029.

Mr. WILLIAMS. What, in general was the property?

Mr. FISHER. Hospitals, orphanages, schools, churches, and all miscellaneous types of property.

Mr. WILLIAMS. Now, the new structures?

Mr. FISHER. You mean new dwellings?

Mr. WILLIAMS. Yes.

Mr. FISHER. The total number of loans made for the construction of a new dwelling was 5,845, in an amount of $12,566,365.

Mr. FORD. That was the $2,500 house?

Mr. FISHER. Yes, sir.

Mr. FORD. Not a very formidable house.

Mr. WILLIAMS. What, in addition to that, have you used for new structures, other than dwellings?

Mr. FISHER. New construction, nonresidential, accounts for 1.8 percent of the number of loans.

Mr. WILLIAMS. That is, the amount of money?

Mr. FISHER. It is 6,664 loans for $4,959,715.

Mr. WILLIAMS. Have you got an estimate there—have you got the figures of what you lost under the old program on installment payments?

Mr. FISHER. Yes; we have that.

Mr. PATMAN. Mr. Williams, under the present program they can accept heating equipment, can they not, or anything that is attached to the realty?

Mr. WILLIAMS. Yes.

Mr. PATMAN. Refrigerators and things of that kind.

Mr. WILLIAMS. That is what I am talking about. Under the old law that was designated as machinery and equipment. That is what I want to find out.

Mr. PATMAN. I wonder if you could make a refrigerator part of the realty to the extent that it would come under the law?

Mr. WILLIAMS. If it is built in like a furnace it would be part of the real estate. That would be a question of law to be determined in each case.

Mr. FISHER. We have had to distinguish very carefully in the different States with respect to whether or not it becomes part of the realty. Under the old act we insured notes for installation of equipment in commercial establishments—such as the refrigerator in a meat shop, which is built in and becomes part of the realty. So we have carefully examined the law in each State with respect to that question of whether the property becomes insurable as part of the realty. I am sorry that I cannot answer your question exactly, Mr. Williams, because we do not know what the total volume of notes insured under the original title I was covering equipment, that is, refrigerators, and so forth, separately.

Mr. WILLIAMS. In other words, no separate class has been given for refrigeration plants and another for painting the house?

Mr. FISHER. That is right. I can tell you what our claims have been by type of equipment. If you take our total amount of claims paid as 100 percent, 34 percent of claims paid were on refrigeration, 17.9 percent on heating equipment, 11 percent on washing machines, 8 percent on roofing, and much smaller percentages in other classes. So we have paid out a higher percentage of claims on account of refrigeration than for any other one item.

Mr. WILLIAMS. In your experience under title I, and your observation, have you discovered any activity on the part, for instance, of a lumber dealer and a cement dealer to form combinations in restraint of trade and fix prices and so on?

Mr. FISHER. Not to my knowledge. And I doubt if there have been any cases that we have discovered. I think it is probable that it would come to my attention if we had had any.

Mr. WILLIAMS. Well, it is a matter, I think, of very general information and knowledge that those things do exist all over the country.

Mr. FISHER. I understood your question to refer specifically to the operations as associated with title I.

Mr. WILLIAMS. But not necessarily associated with title I, but from your observation and experience in the administration of title I, whether you have discovered that tendency or that activity on the part of certain lumber dealers and cement dealers to so manipulate their own trade relations as to control prices and fix prices, maintain them at higher levels, even in violation of the antitrust laws?

Mr. FISHER. I think I can honestly say that we have not. If we had discovered any evidence of that, we should certainly have referred it to the Federal Trade Commission. We have encountered a great many rumors and situations in which it would appear that there was some, if not agreement, at least operations that suggested some agreement. But if we had had any evidence of it we certainly would have turned it over to the Federal Trade Commission.

Mr. WILLIAMS. What has been the trend in building material prices during the last year?

Mr. FISHER. During the last year there has been a tendency for prices of building materials to decline slightly. There has been little fluctuation, but there has been a slight decline up until the last 2 or 3 months, when there has been a slight tendency for prices of building materials to rise, as reported by the Bureau of Labor Statistics. There has been some fluctuations of the different items that go to make up the total index. Some of those have fluctuated up and some have fluctuated down within the past 12 months. In the last 2 months, I think I am safe in saying, without looking up the record, that there has been a slight increase in the average or general index of the price of building material. I think it is of the magnitude of perhaps 2 points.

Mr. WILLIAMS. Was there not a very decided rise in material prices in 1937?

Mr. FISHER. Yes, sir.

Mr. WILLIAMS. And the recession that you speak of in 1938 is from the 1937 price?

Mr. FISHER. Yes, sir.

Mr. WILLIAMS. The level is still pretty high, is it not?

Mr. FISHER. The high point in the index prepared by the Bureau of Labor Statistics was 97, based on 1926 as 100.

Mr. WILLIAMS. You mean 1937, do you not?

Mr. FISHER. In 1937 the high point was about 97.

Mr. PATMAN. What time in 1937?

Mr. FISHER. It reached the peak in May.

Mr. PATMAN. Mr. Williams, will you permit me to ask one question there?

Mr. WILLIAMS. Certainly.

Mr. PATMAN. How does that price index compare with the fall of 1936?

Mr. FISHER. It had gone up from—it had gone up from around 87 in September 1936 to 97 in May 1937.

Mr. PATMAN. Well, you will recall, I think, that other commodities went up along about that time, and then the reserve requirements of banks were doubled, and there was a little turn back. So is that any different from the action of other commodities and materials? I am not inquiring about the difference; I am asking what the fact is.

Mr. FISHER. The fact is that the index stands now at about 90, based on 1926 as 100.

Mr. FORD. Might I give a personal experience there? I was constructing a building starting in November, and I got a price on some 4½ tons of steel, and the first price came to $68, but we were delayed a week or 10 days in deciding whether or not we would put this foundation in, and when I finally decided to do it, the price was $70, $2 a ton higher on steel, but on the other hand we put in a lot of two-by-twelves, heavy joists, and the price on them had dropped about $4, so that what I lost on the steel I made up on the timber. They just about balanced.

Mr. PATMAN. That was over a period of how long?

Mr. FORD. Over a period of about 2 weeks. Then the prices remained stable.

Mr. WILLIAMS. It is a fact, is it not, that under title I, in general, the policy that you have adopted here of insuring these loans results in guaranteeing in cash to the material men money on the barrel head, and they take no risk at all?

Mr. FISHER. I think that is a fair statement.

Mr. WILLIAMS. We, of course, did not intend to do that, and it seems to me that they are the very ones, the very organizations—and I know that is true in some places—that are engaged in practices such that the Federal Trade Commission has had to examine them and to institute orders to get them to stop it. That is the bad feature, in my judgment of title I. We are guaranteeing, without any risk at all, to the men who furnish the material that goes into these improvements and into these new structures, and they are the very same ones who are engaged in these, what I might say are unfair practices, illegal practices to hold up the prices of building material at the expense of building. That is my observation on that.

Mr. FISHER. If I may amend your statement to a slight extent, I should like to say that it includes, also, the same guaranty to labor that is involved in making improvements.

Mr. WILLIAMS. Yes. Now, there is one other question I want to ask, and then I am through. That is about the general building contracts in this country during the past year. Have you looked up any information as to the extent of building contracts of all kinds that were entered into during 1938?

Mr. FISHER. There are no contracts-awarded figures available which cover the entire country. The building-contract figures that are usually referred to are building-contract figures reported by the F. W. Dodge Corporation, which cover the 37 Eastern States. We have those figures.

Mr. WILLIAMS. What are they? What is the total?

Mr. FISHER. $905,000,000 in residential construction were reported in 1937, and almost $990,000,000 in 1938. That covers only the 37 Eastern States.

Mr. WILLIAMS. Of course, that is only 37 States, you say?

Mr. FISHER. The figure given is only the residential contracts reported for the 37 Eastern States during 1937 and 1938. If you want the complete figures, Mr. Williams, I will be glad to prepare them for you.

Mr. WILLIAMS. I have before me a chart which was introduced before the economics committee, which purports to be correct, that is rather astounding to me. It purports to give the figures for the entire building contracts for 1938 at less than 3½ billion dollars.

Mr. FISHER. That is the total of all types of construction.

Mr. WILLIAMS. The total of all types.

Mr. FISHER. I am not familiar with the chart.

Mr. WILLIAMS. And of that amount it gives slightly less than 1½ billion dollars as privately financed, and of that amount how much has the F. H. A. financed altogether?

Mr. FISHER. Our total mortgages accepted for insurance—the figure that I gave here the other day is approximately $1,500,000,000 since the beginning of the program; and during the year 1938, on new construction it was $450,000,000 for about 100,000 small homes, and under the rental and housing program it was $47,500,000 during 1938.

Mr. WILLIAMS. And what does that make the total financing of new structures during 1938?

Mr. FISHER. About $490,000,000—nearly $500,000,000.

Mr. FORD. About one-fourth the private financing.

Mr. FISHER. Yes, sir.

Mr. GIFFORD. Do you recall, Doctor, that when these Federal funds were first made available we tried to limit the approved financial institutions to a radius of perhaps 50 miles from the scene of the operation?

Mr. FISHER. From their home office? I did not quite understand the question.

Mr. GIFFORD. That the financing institutions who were approved to take these loans should not be located more than perhaps 50 miles away from where the property was located.

Mr. FISHER. No, sir; we make no such restriction.

Mr. WILLIAMS. No; but do you recall that that matter was discussed at the time?

Mr. FISHER. I do not recall it; no, sir.

Mr. WILLIAMS. It was very seriously discussed before the committee, whether we ought to let financial institutions in New Orleans be approved for a loan made, perhaps, in my State. Now, Mr. Williams says that the material men get it on the barrel head. Of course, when you approve a financial institution, then you do not look over the individual loans?

Mr. FISHER. That is right.

Mr. GIFFORD. In my section last year the colored population—some of them on W. P. A.—had an epidemic of roofing, where an entire little house in a dilapidated condition would get an entire new roof in variegated colors, appealing to them strongly. There were a lot of those houses, and the material men and laborers would come out there and cover them, and we wondered how in the world they ever got the money to do it, and of course, the material men could have had a pipe line, as you might call it, into a financial institution in New York City that had been approved. It was amazing to see that going on. That was done last year, and we do not know how many have filed other contracts under title I, but that fully illustrates the performance of the material men and laborers up there, and certainly no local financial institution would have approved those loans.

Mr. PATMAN. Is there no way to guard against that, Dr. Fisher? Can you not make rules and regulations that will provide against it?

Mr. FISHER. If there is a small house built under title I, a new house, it has to comply with certain minimum standards which we have established, and the lending institution must certify to us that it conforms with those standards

Mr. PATMAN. That would disclose any irregularity.

Mr. FISHER. If it is a repair or modernization loan on an existing structure, then the institution only has to certify to us that the proceeds of the note were used to modernize or repair a property.

Mr. PATMAN. That seems rather loose to me. Does it not to you?

Mr. FISHER. Well, Congressman, we have tried our best to administer the act in the way in which we thought Congress wished it to be administered.

Mr. PATMAN. Take a case like the roofing case there, I can see where that opens all kinds of opportunities for graft and corruption—and, after all, there is some of that going on in most any line of business.

Mr. FISHER. We have found some of it in connection with title I, and turned the cases over to the Department of Justice for prosecution.

Mr. PATMAN. Well, are they entitled to be prosecuted? If they want to value their labor at, say, $25 a day, and their roofing at two or three prices, and you accept it, how can you prosecute them for it?

Mr. FISHER. Not unless there is fraud.

Mr. PATMAN. How would there be fraud?

Mr. FISHER. I say, unless there is fraud. If there is not fraud, we cannot prosecute them.

Mr. PATMAN. I think something ought to be done to correct that.

Mr. FERGUSON. How can you avoid the man putting in his labor at $25 a day unless we inspect each one of these loans?

Mr. PATMAN. Well, even if inspection is required, it occurs to me it would be justified to prevent wholesale graft and corruption.

Miss SUMNER. Mr. Chairman, Congressman O'Toole mentioned to me some amendment that he has in mind in regard to having labor employed at the prevailing-wage scale, and he remarked that it was common knowledge that W. P. A. labor is used on these contracts. Is that true, Dr. Fisher? I should like to hear your comment on that.

Mr. FISHER. We have never found such a case. There doubtless have been cases in which people have been taken off of W. P. A. rolls and put to work doing these jobs; but we have no record of the type of labor used on the projects.

Mr. BROWN. Well, I know some of the best carpenters in the country have been out of employment and had to seek employment with the W. P. A.

Mr. FISHER. I have no doubt that many people have been taken off of the relief rolls to work on these projects?

The CHAIRMAN. Gentlemen, we have agreed to adjourn in time to get the opening session of the House this morning, and without objection we will adjourn now to meet at 10:30 Monday morning.

Mr. FISHER. Mr. Chairman, before the committee adjourns, I should like to ask that I be given an opportunity to complete my reply to Congressman Wolcott's question with respect to the $6,000,000,000.

The CHAIRMAN. You will be given that opportunity.

(Whereupon, at 11:50 a. m., the committee adjourned until 10:30 a. m., Monday, March 6, 1939.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

MONDAY, MARCH 6, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to notice, for further consideration of H. R. 3232, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Gore, Mills, Folger, Wolcott, Gifford, Luce, Crawford, Simpson, Johnson, Kean, Sumner, Miller.

The CHAIRMAN. The Committee will come to order. Dr. Fisher will you come around, please?

Dr. FISHER. Yes, sir.

STATEMENT OF DR. ERNEST M. FISHER, ECONOMIC ADVISOR, FEDERAL HOUSING ADMINISTRATION—Resumed

The CHAIRMAN. Dr. Fisher and Mr. Ferguson are here for the purpose of further discussion of this bill.

Mr. WOLCOTT. Mr. Chairman, I think Dr. Fisher was to get some figures and put them in the record. I understand they were available Thursday or Friday when I was not here, and he kindly deferred putting them in until today. I think the other day you testified as to the amount of insurance in force at the present time, and you were to get the figures on the total number of pending applications and the aggregate amount of pending applications. I believe that was it.

Dr. FISHER. Yes, sir. Under section 203 the Federal Housing Administration has accepted for insurance $1,704,000,000. Commitments have expired in the amount of $176,000,000, leaving net paying premium mortgages and firm commitments outstanding as of December 31, 1938, totaling $1,528,000,000 under section 203. At that same date the number of mortgages in process of examination in our office, which you asked me to provide, was 31,419 mortgages in the amount of $144,000,000, making a total insured, firmly committed or in process of examination under section 203 on December 31, 1938, of $1,672,000,000.

Under sections 207 and 210 we have insured or firmly committed on $116,000,000, and we have under examination $55,000,000, or a total of $171,000,000 under examination, insured or firmly committed. So that, the grand total of mortgages insured, firmly committed, or in process in our offices is $1,843,000,000 as of December 31, 1938. These data I want to present in connection with the question which Con-

gressman Wolcott asked with respect to the proposal to increase the authorization of the Administrator to insure outstanding balances up to $6,000,000,000. We can cut about $100,000,000 off of this for amortization or prepayments of mortgages which have been insured and for mortgages which have been discharged.

We feel that, within the next calendar year, applications will be received on new small home construction for an amount in excess of $1,000,000,000 under section 203, and, while it is very difficult to anticipate what will be received under sections 207 and 210, we have estimated that would be in the neighborhood of $400,000,000. So that probably by the end of the next fiscal year we will approach the point where the mortgages insured, firmly committed or in process of examination will reach or approach the authorization of $3,000,000,000. Therefore we faced the necessity of making some decisions with respect to the amount that we should request as an expansion of the total amount that could be insured. As I indicated in my previous testimony we have placed the amount proposed arbitrarily at $6,000,000,000, or $3,000,000,000 additional, in the belief that that would probably represent the amount which would fix the celing of the operations of the Administration. I have already referred to some of the data which we took into consideration in fixing that amount.

I have other data I should like to present now. It is estimated by the Federal Home Loan Bank Board that about $17,000,000,000 in mortgage indebtedness is now outstanding on one- to four-family houses. If we include also the outstanding indebtedness on other than one- to four-family houses, the indebtedness on residential properties in the United States is considerably in excess of this amount. We have loans carried on apartments and multi-family structures, and probably if mortgages on these structures were included it would not be an exaggeration to say that the amount outstanding would be increased by between 50 and 100 percent; so that the total amount of indebtedness outstanding on residential property is probably between $25,000,000,000 and $35,000,000,000.

Mr. WOLCOTT. On what do you base your estimate that you will do over $1,000,000,000 worth of business during the next year? During the 4 years which you have been operating you have done $1,650,000,000 worth of business. Now, that is quite an increase in business. It is about a 300-percent increase in business over any other one year, is it not?

Dr. FISHER. During the past calendar year we had mortgages presented to us and selected for appraisal in excess of $1,000,000,000 under section 203. The rate at which our business has been increasing during the past year and the indications of an increase during the current calendar year over the past calendar year, although they are tenuous at the moment, lead us to believe that our volume of business during the next calendar year will be as great as it was last year, and probably greater. The estimates of those who have studied the rate of building indicate a considerable increase in the amount of residential building will occur during the current calendar year over the last calendar year.

Mr. WOLCOTT. How much do you anticipate will be paid on these insured mortgages on principal during the next year, the outstanding mortgages?

Dr. FISHER. It would be about $75,000,000, or possibly more if we include prepaid mortgages.

Mr. WOLCOTT. This, as I understand it, is now a revolving fund.

Dr. FISHER. That is correct; yes, sir.

Mr. WOLCOTT. And with a $6,000,000,000 ceiling you can do several times that much business.

Dr. FISHER. Over a period of years; yes, sir.

Mr. WOLCOTT. And you say that within the next year or so the home-mortgage indebtedness will be approximately $24,000,000,000?

Dr. FISHER. At the present time, it is indicated that the outstanding indebtedness on one- to four-family homes is about $17,000,000,000, and my statement was that if we include the more than the one- to four-family houses it probably stands now at between $25,000,000,000 and $35,000,000,000.

Mr. WOLCOTT. Then we can take the figure of $17,000,000,000. This would enable the Federal Housing Administration to control more than one-third of the outstanding mortgage indebtedness in the United States on properties of less than four-family units.

Dr. FISHER. If all our business was in that range, yes, sir; but some of our mortgage business covers properties of more than four families—multifamily structures.

Mr. WOLCOTT. I assume that it does. It would give you jurisdiction and control over fully 25 percent of the mortgage indebtedness in the United States?

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. Home mortgage indebtedness in the United States?

Dr. FISHER. I assume between 25 and 30 percent.

Mr. WOLCOTT. With this revolving fund, over a period of years it might give you an opportunity to control one-third and possibly half of it, might it not?

Dr. FISHER. It might, yes, sir; one-third or a half of that portion of the indebtedness which was created during a calendar year.

Mr. WOLCOTT. I have been thinking along these lines. Is there any attempt on the part of the Federal Housing Administration to control the interest rates on home financing?

Dr. FISHER. The Federal Housing Administration fixes a maximum interest rate on those mortgages which it will insure under the act.

Mr. WOLCOTT. Then, of course, if you controlled a large portion of the home mortgage indebtedness, you would set certain standards for financing home indebtedness?

Dr. FISHER. I should not want to quibble about the word "control." If we offered our facilities to extend to one-third of the market, we should be effective in the market in influencing interest rates and terms of mortgage financing.

Mr. WOLCOTT. And this committee has got to determine whether it is advisable.

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. We have to determine whether it is advisable for this Government to insure more than one-third of the home mortgages in this Nation and thereby, perhaps exercise control over all home financing. I think we have a very fundamental question before us, and that is why I want to go so deeply into this recommendation of yours that your authorization be increased to $6,000,000,000. There

must be something behind that other than the expectancy of your volume of business during the next year.

Dr. FISHER. Yes, sir; that is correct.

Mr. WOLCOTT. We will be in session, I think, next year. If nothing happens to the Constitution in the meantime, Congress will be in session next year, and I am of the opinion that we ought to feel our way along a little bit.

Dr. FISHER. That is certainly the prerogative of the committee and Congress to determine. I wanted to make it perfectly clear that, in asking for this amount we were controlled primarily by the considerations I have pointed out to you, and also by one other to which I should like to call your attention. The Federal Housing Administration is set up as a Nation-wide organization to extend its facilities to the people throughout the United States, and that task requires the establishment and maintenance of an organization which covers the entire country. With an outstanding mortgage indebtedness insured of $6,000,000,000, we believe that the amortizing of those mortgages will give us a sufficient volume of business to maintain an economical organization. To be specific, if we had an outstanding insured mortgage indebtedness of $6,000,000,000, we would probably get a turn-over of that indebtedness once every 10 or 15 years on an average.

Mr. WOLCOTT. That same thing would apply, of course, to every activity of the Government.

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. If we expanded all of our activities and got a tremendous volume in terms of money and return on investment then, of course, our profits would be that much greater. That contemplates, of course, another question as to whether or not the Federal Government wants to go into the competitive business of financing all kinds of industrial and business and agricultural activity. I think we are confronted with a policy as to whether or not we want to continue that. Now, it is true that if you are making any profit at all you will make more on a larger volume, but is it advisable for the Federal Government to go into this business in competition with investments aggregating billions of dollars, possibly to the prejudice of those investors? While the Government is making money on volume, what is happening to the private investments in real estate? What I want to guard against, if possible, is the Government controlling the credit structure of this Nation, whether it be in home financing or business or industry or foreign loans, and, in the next place, I want to assure myself that this Government is not undertaking an activity which might result, eventually, in the liquidation of so much contingent liability as to destroy the Government itself.

Now, what would happen if you have outstanding $6,000,000,000 in insured loans, and something should happen to the real-estate market, as it has in years gone by, forcing the liquidation of many of these properties? The Government would have to lose because your reserve fund is not sufficient to take care of it, and your reserve fund of a half of 1 percent is never going to be sufficient to take care of your losses. It is no more now than enough to pay your current operating expenses, is it?

Dr. FISHER. That is a long and difficult question to answer.

Mr. WOLCOTT. Part of it was observation. There is only one question involved, and that is: Is your reserve sufficient now to cover your losses and your operating expenses? I should say, perhaps, your anticipated losses and current operating expenses.

Dr. FISHER. Our income for the time being is not quite sufficient to pay our operating costs and to set up what we consider to be an adequate reserve in the current fiscal year. In the fiscal year of 1940 we believe that it will approach that point, because the income from premiums on insured mortgages is recurring income that comes in every year during the term of the mortgage. The largest expense of the Administration is involved in getting business on the books, or it consist of costs of acquisition. We also have to carry the burden of the expense under title I on which we have no income; but as our volume of business builds up, and as the amount of insured mortgages increases, our income increases because we get the recurring premiums on the mortgages which have been insured in prior years. We have already stated before this committee, and I have no hesitation in repeating it, that one-half of 1 percent insurance premium will be adequate, when we have attained another year's volume of business, to support the expenses incurred in insuring mortgages and to set up an adequate reserve to meet the losses which we anticipate.

Mr. WOLCOTT. What reserve is there against potential losses? Have your administrative expenses exceeded or been any more than equal to your reserve? What protection will there be to the Treasury of the United States at the time of liquidation of a great portion, or any portion, of these loans?

Dr. FISHER. The total operating costs of the Federal Housing Administration, including title I, during the fiscal year 1940, are now provided for in the appropriation bill at $12,500,000.

During the fiscal year 1940 our estimated income is over $17,000,000. So during the fiscal year 1940 we should have $4,500,000 income in excess of our total operating costs, including the title I operating costs.

Mr. WOLCOTT. Will you have any other income except premiums paid on insurance?

Dr. FISHER. Yes; we have an appraisal fee which is charged on all mortgages accepted for insurance, at $3 a thousand, or $10 minimum.

Mr. WOLCOTT. Does that cover the cost of making the appraisal?

Dr. Fisher. No; it does not quite cover the cost as indicated on the basis of experience.

Mr. WOLCOTT. You can set that off, can you not?

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. So you expect this year to accumulate in your reserve about $4,000,000 more than your operating expenses?

Dr. FISHER. We will utilize only $9,000,000 of our income for payment of expenses, because some of our expenses are against title I; but we do not want to use the income from insured mortgages to pay operating costs under title I.

Mr. WOLCOTT. How much do you anticipate will be available in the reserve fund against possible losses?

Dr. FISHER. During the next fiscal year we expect to increase our reserves by about $8,000,000.

Mr. WOLCOTT. How much will you have in the reserve, then, after deducting your operating expenses?

Dr. FISHER. It should be in the neighborhood of $35,000,000.

Mr. WOLCOTT. Where do you get your operating expenses?

Dr. FISHER. Where will we get them?

Mr. WOLCOTT. Yes.

Dr. FISHER. We get our operating expenses under an appropriation of Congress which authorizes us to spend certain funds specified in the appropriation bill from our income on mortgage insurance, and there are certain other amounts which are appropriated and placed at the disposal of the Administrator by the Reconstruction Finance Corporation.

Mr. WOLCOTT. How much of the reserve fund has been used to pay your running expenses?

Dr. FISHER. At the end of 1938 it totaled $8,000,000.

Mr. WOLCOTT. Is that to be deducted from the $35,000,000?

Dr. FISHER. No, sir; that was taken from current income from appraisal fees and premium income.

Mr. FERGUSON. It has already been deducted the past year.

Mr. WOLCOTT. I believe you said that your income was from two sources, the premiums paid and the appraisal fees.

Dr. FISHER. That is correct.

Mr. WOLCOTT. And that the cost of the appraisal was equal to or exceeded the appraisal fee?

Dr. FISHER. That is correct.

Mr. WOLCOTT. And, therefore, we can set that off.

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. So that your income, for all other purposes is from the payment of premiums?

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. And you have also said, if I understood you correctly, that the amount received through the receipt of premiums was insufficient to pay your operating loss?

Dr. FISHER. No, sir.

Mr. WOLCOTT. And yet you say you have a $35,000,000 reserve?

Dr. FISHER. No, sir; I am afraid I gave you the wrong impression. The total income, including appraisal fees and premiums paid, has not been in the past sufficient to pay our operating cost and to set up what the Bureau of the Budget and the Appropriations Committee have thought to be desirable to set up in reserve. During the calendar year 1940, it is anticipated that that income will be sufficient to pay our costs under mortgage insurance, and to set up some reserve, but not quite sufficient to meet our operating costs and to set up an adequate reserve.

Mr. WOLCOTT. Have you any reserve now?

Dr. FISHER. We have about $24,300,000 in reserve, and this is being increased both by our income from appraisal fees and premiums, and, of course, the other source of income, which I forgot to mention, which is the interest on the investments of the reserve funds.

Mr. WOLCOTT. Have you used any part of the premiums to pay your operating cost?

Dr. FISHER. About $8,000,000 of premiums and appraisal fees have been used to pay operating costs.

Mr. WOLCOTT. That is reimbursed to you by Congress and you will have in the neighborhood of $35,000,000?

Dr. FISHER. No, sir. We will have in the neighborhood of about $35,000,000 at the end of the fiscal year 1940. If we use $9,000,000 of our income during the next fiscal year for payment of expenses and will have paid at the end of this current fiscal year $10,000,000 ($8,000,000 of which had been paid at December 31, 1938) it will make $19,000,000 expenses which will have been paid out of our income, and our reserve out of that same gross income will have attained about $35,000,000.

Mr. WOLCOTT. What has been your total operating cost since you have started?

Dr. FISHER. I am sorry, Mr. Wolcott. I do not have that figure here with me. I should not like to give an estimate.

Mr. WOLCOTT. Can you put that in the record?

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. That operating cost should include the amount which you have paid for appraisals. Now, can you also tell us how much you will receive through premiums?

Dr. FISHER. Yes, sir.

(The statement referred to is found in the proceedings for Tuesday, March 7.)

Mr. WOLCOTT. As I understand your testimony the amount which you have received for premiums will not exceed very much the amount you have paid out in operating cost?

Dr. FISHER. I would prefer to give you an accurate figure on that in the record, but it is very likely that that is the case.

Mr. WOLCOTT. I wonder if you will put in the record your total operating costs, and offset against that the total amount, that is, including your appraisal fees, which you have received directly from the Congress?

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. And also the amount which you have received through premiums.

Dr. FISHER. Yes, sir; I shall be glad to do that.

(The statement referred to is found in the proceedings for Tuesday, March 7.)

Dr. FISHER. However, I would like to make this comment on this statement when it appears in the record, that the cost of this acquisition of business, that is, the cost of getting these insured mortgages on our books, is the largest cost of operation which we sustain in connection with an insured mortgage. It is the largest element in our cost of doing business. That is already incurred at the time the business is done; but our income is deferred; and on the business which we have down to date, we have a deferred income which will be coming in for the next 15 or 20 years. Therefore, a direct comparison of the current year's expenditures against the current year's income must be accepted with some modification, with some understanding.

Mr. WOLCOTT. That is why I asked you to go back and pick up where you started 4 years ago.

Dr. FISHER. Yes, sir.

Mr. WOLCOTT. How many employees have you now including your officers and field men?

Dr. FISHER. About forty-one hundred, including those in the field offices.

Mr. WOLCOTT. If you increase your volume of business to insure $6,000,000,000 in mortgages do you anticipate that it is going to be necessary to increase your personnel?

Dr. FISHER. Our personnel needs do not increase directly in proportion to the volume of business we do. If we do more than a billion dollars of business, that is, mortgages selected for appraisal during the next calendar year or fiscal year, we might have to have some increase, perhaps, in certain field personnel, but we have found as our business increases that we reach a point where our operations are more economically performed, and that is the point I was trying to make in respect to the $6,000,000,000. If at that time the $6,000,000,000 were turned over about once in 10 years, we would be doing an average annual volume of about $600,000,000, and with a turnover of 15 years we would be doing a volume each year of approximately $450,000,000, and we believe that we can operate economically on that basis.

I want to refer again, however, to part of your question with respect to losses to the Treasury, and if I may presume to do so, I should like to compliment you on the expression which you used the other day with respect to the "potential contingent" liability of the Treasury. The liability of the Treasury is in connection with the debentures issued by the Federal Housing Administration, and is not on the total amount of mortgages insured. The total amount of mortgages insured is, therefore, technically only a potential contingent liability. I do not think there is anyone who would contend that all of the mortgages which are insured are going to be foreclosed. When mortgages are foreclosed, the property is transferred to the Administrator. The Administrator takes over an asset when he assumes a liability; and that liability is the liability of the mutual-mortgage-insurance fund and a contingent liability of the Treasury.

We have tried to make the most realistic estimates possible on an actuarial basis of what the contingent liability of the Treasury is likely to be. I do not want to take up the time of the committee to go into those calculations in detail, but there are, if I remember correctly, 14 assumptions which we have to make, on which we have only some corroborating data, and on the basis of those estimates, as realistic as we can make them, we are confident that the half of 1 percent premium income should enable us to meet our operating costs and all of the losses which will be sustained on account of properties taken over.

Bear in mind, gentlemen, that where property is taken over, the Administrator issues the debenture which is due and payable 3 years after the original maturity of the mortgage. That gives the Administrator time to hold properties until market conditions make it possible to realize a reasonable amount from them.

Now, one of the 14 assumptions that had to be made in connection with the actuarial calculations was an assumption with respect to the price at which we will dispose of the property. We made the assumption that we would dispose of the property at an average price of 60 percent of the appraised value. That figure was based on all of the data that we could find, which applied to the subject, and then

we calculated what loss we would sustain in connection with each mortgage foreclosed in each year of life at that figure. It came out at a little over 15 or 16 percent of the amount of the mortgage. We were really pleased to find that the experience of the H. O. L. C. to date has represented a loss which is a little bit less than the average loss which we calculated to take on insured mortgages which were foreclosed.

There has been some other corroborative evidence that has accumulated to date with respect to our losses, so that, possibly, the liability of the Treasury even in a period of very much depressed prices in real estate might well be a remote contingent liability; and, of course, the liability with respect to the total amount of mortgage insurance is only, as you properly characterized it the other day, a potential contingent liability.

Mr. WOLCOTT. I think I used the expression because I realized that we could repudiate this insurance if we wanted to, but possibly Congress would make appropriations to cover the loss. That is why I used the term "potential contingent" liability.

As I view it now we have set up the machinery for the financing, or the insurance of the financing of more than 50 percent of the home-building mortgages in the United States, depending upon the activity of the agency. We set up the Federal Housing Administration. You have asked us to go up as high as $6,000,000,000 against a total indebtedness of $24,000,000,000 which includes multiple dwellings of over four apartments. We have set up the National Mortgage Associations, which do a Nation-wide business, rediscounting home and apartment-house indebtedness, limited only by the amount of their capital, which under the law is not limited. We have put no cellar under that, and put no ceiling over it. So, it is possible under the authorizations of the Congress for the Government of the United States to control from 50 to 75 percent of the home mortgages of the Nation. I wonder if we should do that. I do not ask you to answer that question, because it is a matter of policy which we have to figure out.

Then, there is another question that comes to me. In view of the possible recommendations of the President with respect to the consolidation of all of our housing activities, and I assume that the President has determined already whether it is advisable to consolidate the Federal Housing Administration and the Home Loan Board and the Home Owners' Loan Corporation and the United States Housing Administration and all of those activities under one head, is there any estimate in your department of the possible savings to the Government in operating costs should that be accomplished?

Dr. FISHER. I do not believe we have made such an estimate.

Mr. WOLCOTT. The number of personnel in your Department is 4,100. Do you know what it is in Mr. Straus' Department?

Dr. FISHER. No; I do not.

Mr. WOLCOTT. Do you know what it is in the Home Owners' Loan Corporation or the Federal Home Loan Board?

Dr. FISHER. No, sir; I do not know.

The CHAIRMAN. Did not the President, in one of his messages, discuss the matter of the economies that might be effected by reorganization?

Mr. WOLCOTT. Yes, he did, and I anticipate that reorganization will be for the purpose of increasing efficiency as well as savings, and the President, in any program which he submits, must make an estimate of the saving. We are going to consider that very shortly, and I have in mind that probably he had completed all of the detail work, and that this official might be able to give us the benefit of any advice that has been given to the President in that respect if it was not of a confidential nature.

Dr. FISHER. As far as I know we have not been asked to make any such estimate.

Mr. GIFFORD. Did you read the H. O. L. C. testimony by Mr. Fahey? He wants us to discontinue this business.

Dr. FISHER. I believe he so testified before the Senate committee last week.

Mr. FORD. Mr. Fisher, you say that there is a potential or, at least, a remote possibility of a loss of 16 percent on all of the mortgages you have made. That would be primarily on home construction. Is that not rather high compared to the amount of 16 percent loss on old properties where the depreciation is considerably accelerated by reason of the age of the property?

Dr. FISHER. No, Congressman Ford, the statement I wished to make was that we had made certain assumptions for our actuarial calculations in connection with properties acquired—not all mortgages insured. We tried to be conservative in those assumptions. After we had made those calculations and made those assumptions, we found from our figures with respect to our estimated losses to the mutual mortgage insurance fund, that if we had erred, we must have erred upward, because our loss figures out at about the figure per property that has been realized by the H. O. L. C., and we hope over a long period of operation to realize losses less than that.

Mr. FORD. It is putting 16 percent as the maximum or ceiling?

Dr. FISHER. We set that up as our assumption with respect to loss. We found that it struck within a very narrow range of the losses that have been sustained by the H. O. L. C.

Mr. FORD. I would say, in view of the fact that at least one-half of your losses would be realized on new property, that you would get a larger percentage of the mortgage value back on a new property than on an old property. Therefore, your percentage of recovery ought to be considerably in excess of what it would be in the H. O. L. C., because their properties are all old properties, and they have taken vast depreciations already.

Dr. FISHER. We believe it will be, and the figures I cited were in support of the feeling we have that our assumptions are adequate.

Mr. FORD. I have one more question, Mr. Fisher, and that is if, for instance, insurance on existing mortgages were eliminated would you need a $6,000,000,000 ceiling for your operations?

Dr. FISHER. That question I cannot answer accurately. I have not made calculations with respect to it, but I would certainly say that we ought not to need it so soon.

Mr. FORD. Personally, I would be willing to let you have the $6,000,000,000 if it were confined to all mortgages.

The CHAIRMAN. You mean title I?

Mr. FORD. No; all titles.

The CHAIRMAN. According to their calculations, if no additional construction is insured there would be no need for that $6,000,000,000. I do not think they have to have $6,000,000,000 anyhow. I think when we get to that we will be able to work it out in a way that will be satisfactory.

Mr. JOHNSON. Did I not understand you to say the other day that you believed the F. H. A. should become a permanent factor or function of the Government?

Dr. FISHER. I said, if I might speak as a private citizen, I would certainly express that hope, and it is obvious from the testimony given before Congress during the original hearings on the act in 1934 that the intention was to establish a permanent agency.

Mr. LUCE. Getting away from figures for a moment, would you refresh my memory as to what are the reasons advanced for the Federal Government undertaking to finance half of the real-estate business in the United States?

Dr. FISHER. In the first place, Mr. Luce, I take some exception to the figure of half of the indebtedness on real estate in the country. I believe the indebtedness on homes at the present time is as low as it has been for some decades.

Mr. LUCE. The principle is the same if we make it one-third. I do not care whether you make it one-third or one-quarter.

Dr. FISHER. The statement I made before the committee the other day, when I think you were absent, was that it seems to me as a citizen that if the Government can render the service to home owners, which we believe that the Federal Housing Administration is rendering, without incurring what appears to be any final loss or net expense to the Government, the Government is justified. It seems to me, also, that the operations of the F. H. A. should go far in another depression to soften the shock of declining real-estate values and of frozen assets in lending institutions. And for that reason it seems to me it would be desirable for the Government to continue to insure mortgages.

Mr. LUCE. But it is a very great invasion of the field of private enterprise. What differentiates that from the financing of industry?

Dr. FISHER. I should wish to take exception to the question of whether it is an invasion of private enterprise. Or, rather, I should say I would like to insert in parenthesis that the insuring operation is not the use of Government funds, and is not in competition with private lending institutions. It is only through the use of the funds of private institutions that the Federal Housing Administration can operate.

The CHAIRMAN. What you mean is that it is operating as a stimulation and as a support to private lending.

Dr. FISHER. Thank you, sir. That is better than I could have expressed it. That is the idea I was trying to express. Its peculiar features are these, as opposed to the financing of industrial property, that there has never been an unbiased source to which home owners' problems were presented in connection with the financing of their ownership. They have gone into the offices of builders or salesmen who were selling homes, and of lending institutions who were anxious or not anxious to get money out; and such advice as they have received in these places has been much that, of course, was sincere, but

it has not been on a uniform basis from institution to institution or from salesman to salesman. There has certainly never been an opportunity for any market for mortgages outside of the local lending institutions and the local area in which such mortgages originated. It is my conviction that a sound mortgage market involves an instrument which can circulate over a wider area and which has some mark of quality that can be depended upon by the people who purchase such mortgages without the necessity of inspection of the collateral.

Mr. LUCE. When this movement began this committee was in charge of the problem, and it was urged upon us that we should provide for the creation of national mortgage associations. I remember discussing the matter on the floor of the House. I told the House that I was going to drown my fears and my hopes, and go along with them, but we did not get any started. In short, private enterprise refused to execute the job you are now doing, and then the next step was to make that job a broader enterprise, because private enterpise would not enter into it, no private capital went into that field. Is it your judgment that it is wise for the Government to invest its money where private enterprise will not?

Dr. FISHER. I think in many cases it is.

Mr. LUCE. That is an approach to socialism?

Dr. FISHER. I cannot be concerned with the term that you apply to it, Congressman; but in my mind that does not represent, necessarily, Socialism. Of course, such a term is difficult of explanation anyhow.

Mr. LUCE. I said an approach, which relieves me from defining what socialism is.

Mr. PATMAN. Would the gentleman yield for a suggestion?

Mr. LUCE. Yes.

Mr. PATMAN. If the gentleman's observation means that this is an approach to socialism, what about the creation of the R. F. C. in 1932 when loans were made to railroads, banks, and insurance companies, that private investors would not invest in?

Mr. LUCE. The R. F. C. is to terminate. We have just temporarily extended its functions, but here is a permanent organization which would demand the Federal Government continuing in that field.

Mr. FORD. You spoke of these mortgages as having or creating a mortgage market. What you were referring to is this: By reason of the mortgage being insured, it has a reasonable value, that gives it an element of fluidity so that it will pass from hand to hand. The fact that it can pass from hand to hand by reason of its safety gives it an element of liquidity, and because of that more money is turned over. Therefore you have three elements in there that you are attempting to establish as a national policy, is that what you have in mind?

Dr. FISHER. Yes, sir. You very well express my attitude, Mr. Ford.

I would like to add a word in answer to Congressman Luce's question. In answering it in the affirmative I had in mind many activities which, from time immemorial, Government and other public funds have been put into, enterprises into which private funds will not go, such as hospitals for the needy, homes for the poor, homes for the blind, and so forth. So, I will stand on my answer.

Mr. BARRY. Last year we adopted a provision establishing national mortgage associations. Can you tell me whether any charters have been issued under that provision?

Dr. FISHER. Yes, sir; a charter was issued to the Federal National Mortgage Association. That was organized very soon after the passage of the amendments of 1938. That association is in operation now.

Mr. BARRY. That association is operation by the R. F. C.?

Dr. FISHER. Yes, sir; operated by the R. F. C. That is, the capital was supplied by that corporation.

Mr. BARRY. Now, private individuals have to contribute, I think, a capital of $2,000,000 to organize a private association. Do you know whether anyone has applied for a charter under that provision?

Dr. FISHER. So far as I know, no formal applications for charters have been received; but we have discussed the matter with a number of groups who are interested in forming a national mortgage association.

Mr. BARRY. Will you tell me just what function that national mortgage association will perform or what service it will give that is not being given now by private banks and other institutions?

Dr. FISHER. The National Mortgage Association acts as a reservoir or discount bank for institutions that originate insured mortgages and buys its mortgages from these originating institutions. It uses the mortgages which are insured as a basis for issuing its own debentures to the public. So, it acts as a bank of discount and as a bank for calling in funds to invest in essentially insured mortgages, although those investments are made in the debentures of the National Mortgage Association.

Mr. BARRY. As a matter of fact, right now the banks are competing with each other to lend this money?

Dr. FISHER. Yes, sir. There are two reasons which I feel confident explain the reason why no private national mortgage association has been organized. The first is that there is not a large market for insured mortgages, because most originating institutions are holding them in their portfolios.

Mr. BARRY. And those who want to get rid of them have no difficulty in doing so?

Dr. FISHER. No. The difficulty is in finding someone who is willing to sell, rather than someone who wants to buy.

Mr. BARRY. Was there not fear last year that such a condition would not exist, and was not that the reason for the creation of the National Mortgage Association?

Dr. FISHER. That may have played some part in it; but the principal reason, I think, for the organization of the National Mortgage Association last year was that there were certain areas in the country that were not then getting insured morgages. Lending institutions in those areas hesitated to make loans until there was an established market for them. They hesitate to make them so long as they had to depend upon private sale, and selling them wherever they could find a market. Most of the mortgages that have been purchased by the National Mortgage Association have been purchased in places that are not adequately financed by home financing institutions.

Mr. WILLIAMS. The National Mortgage Association discounts uninsured mortgages also in that same connection.

Dr. FISHER. I think up to the amount of their capital, if they are not over 60 percent of the appraised value of the property. But they cannot use an uninsured mortgage as a basis for issuing debentures.

Mr. WILLIAMS. To what extent have they discounted uninsured and insured mortgages? What amount of business has the National Mortgage Association done?

Mr. FERGUSON. They have about $80,000,000 in mortgages, all insured mortgages.

Mr. WILLIAMS. They have not discounted so far any uninsured mortgages?

Mr. FERGUSON. That is my information, but I do not know that it is strictly accurate. I understand they have purchased nothing but insured mortgages.

Mr. WILLIAMS. Is that an established policy, or because there is no demand for the uninsured mortgages?

Mr. FERGUSON. I think that is the policy in this in uninsured mortgages. It has been in existence for a number of years.

Mr. WILLIAMS. The law provides that they may do that?

Dr. FISHER. That is right. Up to the extent of their capital, under the law, the National Mortgage Association may purchase uninsured mortgages if the mortgage is approved by the Administrator, and is not in excess of 60 percent of the appraised value of the property, up to the amount of the capital of the association. They cannot, however, issue debentures and sell them to the public against uninsured mortgages.

Mr. WILLIAMS. I understand that, but I was just wondering if it is an established policy or whether it is because they have not received any demand for that kind of mortgages.

Mr. FERGUSON. I cannot tell you, Mr. Williams, what the policy of the Federal National Mortgage Association is, because we have no connection with it, but my understanding is they have done that.

The CHAIRMAN. That was done with the idea that that capital would be supplied by private investment.

Mr. BROWN. The thing that is worrying me is the financing of mortgages on old buildings. I wonder if there should be any more safeguards put around loans of this character, such as requiring them to go first to local institutions to see whether or not they could get the money there.

Dr. FISHER. I want to give that some consideration, Congressman Brown, if I may.

Mr. SPENCE. Why are so many lending associations bitterly opposed to the F. H. A. continuing the insuring of mortgages?

Mr. BROWN. The R. F. C. does not make any loans if the applicants can obtain funds locally. They go to local people first, and the R. F. C. make the loans if they cannot obtain them elsewhere.

The CHAIRMAN. Without objection the committee will adjourn until 10:30 tomorrow.

(Thereupon, at 12 o'clock noon the committee adjourned until tomorrow, Tuesday, March 7, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

TUESDAY, MARCH 7, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 o'clock, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Sacks, Gore, Mills, Folger, Wolcott, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner.

The CHAIRMAN. Mr. Spence, are you ready to proceed from where you concluded yesterday?

Mr. SPENCE. Doctor, I asked you why is it that the building and loan association did not seem to be favorably disposed to insure all mortgages on existing construction. What effect do you think that provision of this bill will have upon the present operations of the building and loan associations? I might say further, is it not a fact that the building and loan associations are organized purely for the purpose of lending upon real estate and that the only manner in which it can invest the money of the depositing members under its charter is by means of real estate, and does not this bill rather stimulate lending by other institutions such as banks and other lending institutions of that character that otherwise would not be in active competition with the building and loan association? Doesn't it divert the flow of mortgage lending from building-loan associations to other institutions?

Dr. FISHER. I think that the representative of the building and loan associations, who I understand the committee is going to hear, will probably answer that question as well as I can.

Mr. SPENCE. Well, now, what effect will it have upon lending by banks? There seems to be a general feeling now that the banks will not give the accommodation to industry that industry requires, and if you furnish another field for investment of the funds of banks will that not further freeze up the funds that they might lend for the promotion of agriculture, industry, and commerce, which was the purpose for which they were primarily organized?

Dr. FISHER. It does not seem to me that the question of whether the banks lend to industry is necessarily involved. That is a very complicated question. As I understand the question, the problem of lending to industry, particularly to small industry, is primarily a problem of intermediate term loans, loans that fall between long-time investment loans to industry for plant and equipment, and the short-time loan to finance production. The latter, the short-time loan to finance production, I believe, is being adequately taken care of.

But the 3- to 5-year loan that industry needs for replacement of equipment and the modernization of equipment falls between the investment bankers' field and the field of the commercial bank. In view of the large assets of the commercial banks that are available for lending, and their lending power in terms of volume, it does not seem to me there is any difficulty in extending their operations also into the field of mortgages. I have before me, for instance, the number of savings depositors in mutual savings banks and in national banks, and the amount of deposits in these institutions. The mutual savings banks have 13,265,000 depositors, and the funds that they have on deposit amount to about $10,185,000,000.

Mr. GORE. What was that?

Dr. FISHER. The mutual savings banks. The national banks have 15,794,000 depositors on savings passbook account, with an amount of $7,102,000,000. While in banks insured by the Federal Deposit Insurance Corporation, which includes the national banks and all other insured banks, there are 34,323,000 time depositors, and their funds are $14,658,000,000, according to the annual report of the Federal Deposit Insurance Corporation. These funds are in the nature of savings and long-time deposits and do not include the short-time commercial time deposit but are savings passbook accounts.

In view of these vast funds available for the purpose of relatively long-time investment on the part of banks, it does not seem to me that the small volume they might do in mortgages would be serious in impairing their power to lend to industry.

Mr. SPENCE. What about mortgages on existing property which are carried by organizations organized exclusively for the purpose of lending on real estate?

Dr. FISHER. I don't know.

Mr. SPENCE. Are there any other organizations that are limited by their charter to lending on real estate except building and loan associations.

Dr. FISHER. I am not quite sure with respect to the provisions in the charters of most building and loan associations.

Mr. SPENCE. I mean mortgage associations.

Dr. FISHER. There are some. I should suspect that the charters of many building and loan associations would permit them to invest some of their funds in other than real-estate mortgages, though I am not familiar with the details of the charters of most building and loan associations. The mutual savings bank comes as near to being a mortgage bank as any other type of lending institution. I think prior to the depression something like 60 percent of their assets were invested in real estate, but they are not organized solely for the purpose of investing in real-estate mortgages. They did have, prior to the depression, 40 percent of their assets in other kinds of securities. I think that has fallen recently about 60 percent in other assets and 40 percent in mortgages.

Mr. SACKS. Mr. Spence, would you yield for an observation on a point you brought up? I believe that Congress has been too good to the banks. I feel it has all the responsibility for it. In 1937 when it organized the Federal Deposit Insurance Corporation the Government put up most of the money for the premium, as we call it. In addition to that we made it a violation of the law for anyone to collect interest on demand deposits, or the banks to pay interest on

demand deposits. We saved the banks about a quarter of a billion dollars a year. We further fixed it so that the interest rates on time deposits would be fixed by the Board, and they have been fixed so the banks have received enormous sums of money, millions of dollars since that time. Therefore, those savings banks have not had the incentive to make loans. At least, to look for loans as they had before. And through holding large amounts of Government bonds and through service charges they have almost become commercial bookkeepers and Government bondholders and Government bond brokers. And they have gone out of the banking business because they have not had the incentive.

Mr. SPENCE. That is my idea; if we give them this field for investment, they would have an additional excuse.

Mr. PATMAN. I do not think they need excuses.

Mr. FISHER. It is very difficult, of course, to answer your question as to why this opposition on the part of the building and loan associations to a continuation of our power to insure mortgages on existing construction. To answer that question I should have to attempt to analyze the reasoning of officers of the building and loan associations, and that is very difficult.

I should like to point out, however, in case the Federal Housing Administration is not authorized to continue to insure mortgages on existing construction, then in most States, those mortgages which are in excess of 66⅔ percent of the value of the existing construction, would find absolutely no outlet except the building and loan associations.

I would not impute to the officers of building and loan associations, a desire to obtain a preferred position in that field, through the limitation of competition in connection with the financing of existing construction above 66⅔ percent; though that, I believe, would result from the elimination of the Federal Housing Administration from insurance of mortgages on existing construction.

Just after the passage of this act in 1934, State laws were amended in 48 States to permit banks, life insurance companies, and other fiduciary institutions to lend up to 80 percent, or in excess of the previous legal limitations, provided the mortgages were insured by the Federal Housing Administration. They would not be authorized to do so—if the Federal Housing Administration could not insure such mortgages.

Mr. PATMAN. What proportion of the existing mortgages are over 66⅔ percent?

Mr. FISHER. I have not any idea. I have not any figures that would indicate that. I feel quite confident that those properties which are transferred in ownership, from time to time, are transferred with a payment down which is less than 33⅓ percent in the majority of cases.

Mr. PATMAN. Is it not a more difficult matter to obtain the necessary appraisement of existing construction than new construction?

Mr. FISHER. That is a question, again, which has to be answered solely on the basis of judgment. In my judgment, valid or invalid as it may be, I see no reason why it should be any more difficult to appraise existing construction than new construction. Some times I am inclined to believe that it is easier. And so far as the mortgage risk is concerned, I feel perfectly confident, and I have argued the matter

with a number of mortgage lenders, that the risk involved in existing construction may be less than it is on new construction.

The principal reason why I take that position is, that a new house is new, but when it is lived in for 6 months, or a month, it is a used house. It is very difficult to estimate the rate at which depreciation will take place because someone has occupied the house.

Mr. PATMAN. Do you have any formula for that?

Mr. FISHER. We have never seen a formula which appears realistic as to depreciation. Of course, it is necessary to adopt some policy in connection with income taxes, and so on, where there are tables of depreciation which can be used for certain purposes.

Mr. PATMAN. Depreciation largely depends on the character of the owner?

Mr. FISHER. It depends on the character of the owner, the location of the house, its conformity to the neighborhood, and a large number of other factors, such as the course of cost of construction, which are extraneous to the property itself.

Mr. PATMAN. And you rely for those factors upon the local lending institutions?

Mr. FISHER. No, sir; we rely, in some measure, upon the local lending institutions; but we make our own appraisals of every property that we insure the mortgage on. So we depend primarily on the judgment of our own staff in estimating the value of property.

Mr. PATMAN. What proportion of the existing mortgages can be taken care of, if the present building and loan associations and other lending institutions, if you are out of the picture?

Mr. FISHER. Well, the total assets of building and loan associations are reported as in the neighborhood of $6,000,000,000, of which probably about $1,000,000,000 is invested in real estate that has been foreclosed. That leaves approximately $5,000,000,000 of funds in the building and loan association invested in other than real estate. The total amount of outstanding indebtedness, as quoted above, is estimated at $17,000,000,000 on existing construction, one- to four-family houses; and if we include apartment houses, it is something in excess of that, probably between $25,000,000,000 and $35,000,000,000.

Mr. PATMAN. Where does the Home Owners' Loan operate, and what have they lent?

Mr. FISHER. They originally lent something over $3,000,000,000, and I believe the outstanding indebtedness is about $2,200,000,000.

Mr. PATMAN. That would be added——

Mr. FISHER. No; that is included in the $17,000,000,000.

Mr. PATMAN. In the $17,000,000,000?

Mr. FISHER. Yes; $17,000,000,000.

Mr. PATMAN. Now, what is the appraised value of the homes that the Home Owners' Loan organization has repossessed?

Mr. FISHER. I do not have that figure, sir. I do not know.

Mr. PATMAN. Now, this is the existing mortgages not carried by building-and-loan associations, which is practically $6,000,000,000?

Mr. FISHER. Existing mortgage loans they hold is in the neighborhood of $3,500,000,000, according to Federal Home Loan Bank Board annual report for fiscal year ending June 30, 1938.

Mr. PATMAN. Then would be added to that the amount carried by the Home Owners' Loan, which is about $2,200,000,000?

Mr. FISHER. Yes.

Mr. PATMAN. That would be $5,700,000,000?

Mr. FISHER. The rest is owned by savings banks, life-insurance companies, commercial banks, individuals, and others.

Mr. PATMAN. Well, now, what would be the appraised value of the total property that has been repossessed by the building-and-loan associations, and the Home Owners' Loan, if you know, at this time?

Mr. FISHER. I do not know, sir.

Mr. PATMAN. You do not know?

Mr. FISHER. I do not know. I cannot answer that question.

Mr. CRAWFORD. Dr. Fisher, yesterday morning, you were making some observations with reference to building the volume of business to where it would support, as I understood, the organization which you feel is necessary to carry on. In other words, I understood you to give us the impression, or to convey to us the information that you wanted to bring this volume up to the point where you would be on a profitable basis, considering the personnel that you must carry and the functions you must perform.

Mr. FISHER. So that we could get on a basis, Congressman, I said, that would enable us to operate our organization efficiently.

Mr. CRAWFORD. Do you have with you what an accountant would term an operating statement, from the beginning of your existence down to, say, December 31, last, or June 30, last, that you could give us in a very brief form, giving the total operating expenses, say, for 1935, 1936, 1937, and 1938, and the total revenue, based on premium income and examination fees, so that we could arrive at the accurate deficit and then show where your appropriations have come from, that is, whether from the Reconstruction Finance Corporation, whether you have used your own earnings, or the details in that respect? Have you a statement that you could give us on that?

Mr. FISHER. Yes, sir; the total operating expenditures of the Federal Housing Administration through December 31, 1938, were $44,228,000. I take it you do not care for the specific figures beyond thousands?

Mr. CRAWFORD. Can you break that down under the 2 or 3 or 4 years involved?

Mr. FISHER. Yes, sir.

Mr. CRAWFORD. Just in round figures. What was your first year?

Mr. FISHER. I am going to give it to you in round numbers. July 1 to December 31, 1934, $1,739,000; for the calendar year 1935, $10,468,000; for the calendar year 1936, $11,386,000; for the calendar year 1937, $9,264,000; for the calendar year 1938, $11,371,000; and our total operating expenses through December 1938 were $44,228,000.

Mr. CRAWFORD. Can you give us your earnings in a similar manner? That would be the premium income and examination fees. Does that constitute your total earnings?

Mr. FISHER. That is the principal income. I neglected to mention the income from investments yesterday. Through December 31, 1938, our income from insurance was $20,561,000, of which $7,673,000 came from appraisal fees. The balance of the $20,561,000 was from insurance premiums. The income from investments of insurance funds was $2,112,000, making the total income from both sources of $22,673,000.

Mr. CRAWFORD. That leaves you, roughly, then, a deficit of $22,000,000 for the period under review?

Mr. FISHER. Yes, sir.

Mr. CRAWFORD. From the inception down to December 31, 1938. Now, how much of that $44,228,000 of expense has come from the Reconstruction Finance Corporation, how much have you taken from your earnings, and how much has come from other sources, say direct appropriations, or the different sources you have obtained it from?

Mr. FISHER. We had deducted from our mortgage-insurance income at December 31, 1938, $8,000,000 to apply toward our expenses. The balance of our expenses have been appropriated by Congress, which authorized the Reconstruction Finance Corporation to advance the funds to us.

Mr. CRAWFORD. Well, do I understand you to say that $36,000,000 has come through the R. F. C.?

Mr. FISHER. Yes, sir.

Mr. CRAWFORD. $36,000,000 has come through the R. F. C.? Then forecasting your prospective expenses and earnings on investments, and from premium income and examination fees, then you need an insured volume of around $6,000,000,000 to take you out of the red; is that correct?

Mr. FISHER. No, sir; that is not quite accurate.

Mr. CRAWFORD. Restate it then for us.

Mr. FISHER. In the first place, out of these expenses that I have quoted, we have approximately $11,000,000, which we have spent under title I. That is the closest estimate we can make at the moment.

Mr. CRAWFORD. That would be $11,000,000 out of your $44,000,000?

Mr. FISHER. Yes; or a net of $33,000,000 for title II operating expenses from June 30, 1934. Now, if we arrive at a point where we have $6,000,000,000 outstanding on our books, our cost of operating the mortgage-insurance business throughout the country, in all of the sections of the country, some of which are sparsely populated and in those parts that are sparsely populated we have a relatively high cost of doing business, we would be handling an average annual volume, permitting efficient operation. As our volume increases our expenses do not increase proportionately. For instance, for the total year 1938, our expenses increased 23 percent, and our volume of small-time mortgages handled increased 70 percent; so that we were reaching the point of diminishing expense ratio.

If we had a volume of $3,000,000,000 on the books as the maximum outstanding balance which we could insure, we would be reduced to an annual volume which probably would not be in excess, in most years, of $300,000,000. Operating at a volume of $300,000,000, we would be faced probably with the choice of coming to Congress for an appropriation to cover the expenses of operation in the sparsely settled areas, or of diminishing the service which we would give in those areas, and consolidating the offices and giving limited service in the sparsely populated areas.

Mr. CRAWFORD. In that respect, out of your total of 4,200 employees, I believe you stated yesterday——

Mr. FISHER. I have the exact figure here, if you wish it.

Mr. CRAWFORD. What is it exactly, Dr. Fisher?

Mr. FISHER. On December 31 there were 1,501 full-time employees in the Washington office, and 2,554 employed in the field offices, or a total of 4,055.

Mr. CRAWFORD. Now, these 2,554 are out through the territory, and about what percentage are in those sparsely settled areas to which you have referred?

Mr. FISHER. I could not give you an accurate estimate of that offhand.

Mr. CRAWFORD. Would you say, roughly, 20 percent of the entire force?

Mr. FISHER. That would be a guess. I would have to calculate it.

Mr. CRAWFORD. Unless your volume is materially increased to about how much—$300,000,000, did you say, of new business, per annum—is that what you said?

Mr. FISHER. I said that, with a total authorization of $3,000,000,000, our annual volume probably would not exceed, on the average, $300,000,000 a year.

Mr. CRAWFORD. Say 10 percent?

Mr. FISHER. Yes; a turnover once every 10 years. It probably would not exceed that. Operating at that volume, we would not be able to operate efficiently, or as efficiently as we can with a volume of, say, $600,000,000, which would be our average annual volume, probably, if we had a total authorization of $6,000,000.

Mr. CRAWFORD. Have your projected figures been summarized in a way that you could give us a rough estimate of the deficit which you would have to ask for, if you operated on a basis of $3,000,000,000, or on a $300,000,000 annual basis, as against $6,000,000,000 or $600,000,000 annual basis?

Mr. FISHER. We could make up such an estimate, but it would be a matter of guessing, largely, because we would face the alternative of reducing our forces in those areas where the volume was not sufficient to justify our maintaining them. So that it would not be a very valuable estimate, it seems to me.

Mr. CRAWFORD. Have you already put into the record an estimate of what your expenses and earnings will be on the enlarged operating basis, for the period, say, of the next 2 or 3 years?

Mr. FISHER. No, sir; I have not put such into the record, but I want to complete the statement with respect to income and expenses over the past, by referring to the item of deferred income, which I referred to yesterday as one of the important items in considering the fiscal position of the Federal Housing Administration.

On the business on our books, as I have already indicated, we have a certain income, which is already realized. If we insure no more mortgages from today on, or from December 31, 1938, on, our estimate is that the deferred income on our mortgages that were insured as of that date, deferred at 2½ percent, is approximately $65,000,000.

Mr. CRAWFORD. You mean to say that is to be added to your $22,000,000?

Mr. FISHER. Yes, sir.

Mr. CRAWFORD. On what basis would you realize that income?

Mr. FISHER. Through the insurance premiums that come in over the term of the mortgages that are now insured.

Mr. CRAWFORD. The overhead cost of which has already been incurred and included in your $44,000,000?

Mr. FISHER. The largest portion of the overhead has been incurred. Now, out of this $65,000,000, which is the estimated present worth of the deferred income—out of that we have to take some overhead for servicing these mortgages on our books and for taking care of the properties that we take over through foreclosure.

Mr. CRAWFORD. How often do you reflect this deferred income back into your operating statement?

Mr. FISHER. We do not reflect it back into our operating statement. Our operating statements are kept on the current basis of cash receipts and cash paid out; but in connection with the discussions which we have had with the Bureau of the Budget, concerning the adequacy of our reserve fund, we have had to take into account, of course, this question of deferred income.

Mr. CRAWFORD. When these contracts mature you will, at that time, reflect it in your statement?

Mr. FISHER. We will reflect it in income from year to year, as it is realized.

Mr. CRAWFORD. So you reflect it on an annual basis?

Mr. FISHER. Yes, sir; or that portion which is received—within the accounting period.

The estimates, for instance, of our income for 1940, you may be interested in that. We have estimated that our appraisal fees will be around $3,181,000. Then our premiums for mutual mortgage insurance will be $11,593,000. That includes the recurring income on mortgages which were insured prior to the beginning of the fiscal year. The examination fees for the housing fund, $517,000; premiums for the housing fund, $985,000; interest on investments, $768,000, plus $49,000, or total receipts of approximately $17,096,000.

Mr. CRAWFORD. And in that $17,096,000—you bring back into your earnings statement a part of these deferred credits to which you have referred.

Mr. FISHER. Yes, sir; those that are realized during that accounting period.

Mr. CRAWFORD. Now, then, this $17,096,000 is your estimated income on current business, plus the proportion of the present deferred income, and against that you set up what estimated expenses?

Mr. FISHER. $12,500,000. That is the total expense, including the expense for title I, which are running at the rate of about $1,350,000 a year.

Mr. CRAWFORD. On the basis that you mentioned, you come around, roughly, to a figure of $5,000,000 in the black?

Mr. FISHER. Yes; if you take title I out, it is something more than that.

Mr. CRAWFORD. That is based on what volume of business, now?

Mr. FISHER. That is based on the current volume of business now being handled, which includes mortgages selected for appraisal under section 203, at an annual rate of $1,010,000,000; and under sections 207 and 210, a volume of approximately $400,000,000.

Mr. CRAWFORD. Now, are you permitted to participate in that volume as the law now stands, or will it require this step-up from $3,000,000,000 to some other figure?

Mr. FISHER. No, sir; under the present law, if we were not authorized to insure more than $3,000,000,000 of outstanding indebtedness, it is likely that, before the end of the fiscal year 1940, we should

approach the limit of $3,000,000,000 in mortgages accepted for insurance, insured, firm commitments, and mortgages in process of appraisal in our office. So we feel that we must request some addition to the $3,000,000,000 authorization, or be prepared to stop accepting applications some time during next spring.

Mr. CRAWFORD. So that this estimate you have just given me, then, which resolves itself into proving the need of $5,000,000,000, is based on the anticipation that additional legislation will be enacted, permitting your expansion to that point; is that correct?

Mr. FISHER. No, sir; it was based on the assumption that we would not be insuring existing construction, and there would be no change in the law, because we would do a billion dollars of business next year on the $3,000,000,000 authorization.

Mr. SACKS. Do you have the accurate expenses, say, for the people of the various districts and the income derived from those districts?

Mr. FISHER. Our annual report for 1938, which is almost ready for distribution, will show some of that information.

Mr. SACKS. Then, for example, in 1937, what was the cost of operating a district like Philadelphia, where you have a district office——

Mr. FISHER. That will be shown in our annual report.

Mr. SACKS. And you do not have that with you?

Mr. FISHER. I do not have the figures with me; no, sir.

Mr. SACKS. Would there be much of a deficit there?

Mr. FISHER. There will be some offices that will show a deficit on the basis of current income.

Mr. SACKS. Will Philadelphia?

Mr. FISHER. The Philadelphia office?

Mr. SACKS. Yes.

Mr. FISHER. I do not think it would, sir; but that is only my opinion offhand, and I would like to look at the figures before I answer definitely. I should like to make one further statement, and that is that we tried to be modest and careful in estimating our volume of business for next year, and our estimates have so far been very accurate. Last week, we did the largest volume of business that has ever been done in the history of the Federal Housing Administration, when, under section 203, we selected for appraisal mortgages in the amount of $26,263,000. So we are running above our estimates.

Mr. FORD. In a week?

Mr. FISHER. Last week; yes, sir.

Mr. CRAWFORD. When you say last week, you mean your report as of last week, or the business actually handled last week?

Mr. FISHER. The business handled in a week, the week ending last Friday at 2:30 p. m., in all of our district offices.

Mr. WILLIAMS. In that same connection, Mr. Crawford has asked you about this total income that you receive or will receive for 1940, $17,096,000, as I have the figure here, is based upon what total volume of business, again? What is the total volume of business?

Mr. FISHER. It is based on the volume of insured business which is now on our books and the volume of business which we anticipate doing during the fiscal year 1940.

Mr. WILLIAMS. What is that?

Mr. FISHER. That volume is approximately $1,000,000,000 selected for appraisal under section 203, and the volume of $400,000,000 of

applications received and selected for examination under sections 207 and 210.

Mr. WILLIAMS. What is the total? I want that figure, if I can get it.

Mr. FISHER. $1,400,000,000.

Mr. WILLIAMS. That is in addition to your present business, is it not?

Mr. FISHER. That is the new business that we would take into our office.

Mr. WILLIAMS. What is the total volume of business on which that income is estimated?

Mr. FISHER. It would be difficult——

Mr. FORD. The existing deferred income, plus that?

Mr. FISHER. I cannot give you the exact figures that we estimate we will have on our books on June 30, but it would be based on $1,300,000,000, as of December 31, plus our estimate of the amount we will insure between December 31 and June 30, 1939, and the volume which we expect to do during the fiscal year 1940. I will add those up, if you wish me to, but I have not that before me.

Mr. FORD. Can you approximate it?

Mr. FISHER. That would give us a total volume outstanding of close to $3,000,000,000 by June 30, 1940.

Mr. FORD. About $2,700,000,000, is it not?

Mr. FISHER. It would be between $2,600,000,000 and $2,750,000,000.

Mr. SPENCE. Would you be forced to stop doing business then?

Mr. FISHER. If we reached a point where we had mortgages accepted for insurance, that is, premium paying or firmly or conditionally committed, plus the mortgages in our office for appraisal, at $3,000,000,000, then we would have to stop.

Mr. SPENCE. You would have to stop when you reached $2,700,000,000?

Mr. FISHER. That is right.

Mr. CRAWFORD. Dr. Fisher, may I ask you another question? I intended to ask you a while ago, and maybe you did put it in your statement, but assuming that your operations carry out your forecast, would it be the first year you have been in the black, the period in which you had earned it?

Mr. FISHER. Calculated on that basis?

Mr. CRAWFORD. Yes; calculated on the basis of current income. That is what I mean by being in the black.

Mr. FISHER. The fiscal year 1939, Congressman, will find us operating at a total budget of approximately $13,500,000, including the operations under title I, and our total receipts are estimated at $13,379,000, so we are right close to the border.

Mr. CRAWFORD. And it is your best year up to date?

Mr. FISHER. Yes, sir.

Mr. CRAWFORD. Now, going back again to the 4,055 employees and the overhead under which you are operating, what would be your prospects for reducing that expense subsequent to July 1, 1940, if this $3,000,000,000 was not increased to $6,000,000,000, or less, so that you could still operate without going to Congress for an additional appropriation and keep within your revenue?

Mr. FISHER. Keep within that portion of our revenue, which can be allocated to expenses?

Mr. CRAWFORD. Yes.

Mr. FISHER. That is a question, of course, which the Administrator, himself, should answer. I believe that I have talked with him enough about it to be able to say that every effort would be made to reduce expenses to the point where that portion of the income which can be allocated to the expenses would carry them. But as I said before, the alternative is, of course, to reduce expenses to the point where our services are not available to some areas of the United States as fully as we should like to make them available under the act.

Mr. FORD. Mr. Fisher, when you say that, what do you mean? Do you mean that in the sparsely settled areas you are not able to maintain offices?

Mr. FISHER. No, sir; at the present time, the United States is covered by the mutual mortgage insurance operations. Any city or any town or any commuity can get the services of the Federal Housing Administration. Now, in nearly every State, we have what we call full-insuring offices, so that the residents of the States can get prompt service on their applications for mortgage insurance. If we face the necessity of reducing the operating costs, we have to eliminate some of our offices, obviously, in the field. We would have to make some of our offices, probably, in some States partly insuring offices so that some of the work could be done there, but it would have to be referred to another office in another State.

Mr. FORD. All that would entail would be delay?

Mr. FISHER. There would be a delay or a lack of prompt service to some of the people in some of the areas.

Mr. CRAWFORD. May I ask you another question with reference to this $26,000,000 of business in a week, in the week ended last Friday? How do you account for that? What do you think is the primary cause of that? Let me say it this way: How much of an increase is that over the largest week you ever had before?

Mr. FISHER. The largest previous week was $24,500,000, last October. It probably results from just the increase over last year's residential construction.

Mr. CRAWFORD. Would you say that reflects, in your opinion, the beginning of the spring building program?

Mr. FISHER. Yes, sir.

Mrs. HART. It is undoubtedly a seasonal movement.

Mr. CRAWFORD. What is the largest week you had this year, that is, prior to last week?

Mr. FISHER. Approximately $22,000,000.

Mr. CRAWFORD. What month was that in?

Mr. FISHER. Within the last 2 weeks.

Mr. CRAWFORD. Do you make these reports weekly?

Mr. FISHER. Every week. Incidentally, the volume of mortgage selected for appraisal has, in the past, been a rather sensitive index of the subsequent volume of residential construction, as is indicated by building permits.

Mr. SPENCE. What proportion of the $26,000,000 was for new construction?

Mr. FISHER. We do not know exactly yet, but it will probably be about what we have been running, which is about 70-percent new construction.

Mr. FORD. Mr. Fisher, I might ask you a question. I am getting a great deal of correspondence from builders, saying that, if a builder were permitted to sell one of these F. H. A. houses, say, on a 2-percent down payment and put the balance in the form of Government bonds—put the balance in the form of Government bonds up with the F. H. A. as security for—say it is a $5,000 house, and the total down payment is about $650—if a purchaser wanted to buy a house and did not have—say he had $100 and the builder put up United States Government bonds with you, or the lending agent, for the difference between $100 and the amount he ought to pay, and leave them stay there for at least 2 years, until the man had proved his sincerity and made his payments as they came due—would there be any objection to that?

Mr. FISHER. That cannot be done under the act.

Mr. FORD. That could not be done under the act?

Mr. FISHER. The act would have to be amended to permit that.

Mr. FORD. Would you think it would be a wise thing to do, or unwise?

Mr. FISHER. Well, I do not think that question can be answered completely, but, briefly, I should rather oppose it, because the man is incurring an obligation for the balance of what the payment should have been, and that obligation may rest heavily upon him, and I feel that 10 percent down is rather liberal.

Mr. FORD. I feel that way, too; but if a builder were willing to take the balance of the risk and would put up ample security to secure you and secure the bank in the event the man failed, would you say that would be wise or unwise? Of course, you would have to be careful in selecting your man.

Mr. FISHER. That would take care of the risk of the Federal Housing Administration, perhaps, and it would certainly take care of the builder.

Mr. FORD. If the builder were willing to take the risk, would you not let him?

Mr. FISHER. I should be inclined to think rather in terms of the borower, that it might not be wise for him if he has not the 10 percent to pay down.

Mr. FORD. Suppose the borrower made a loan and his payments to the F. H. A. were $30 a month, and that same man has been paying $38 a month rent, and under this new plan he can secure his own home, and if he does not have to pay the $38 he can then turn that $8 over to liquidate his down payment. In 2 or 3 years he would pretty near make it up, would he not?

Mr. FISHER. Well, yes; if he waited another year or two, in other words, to buy his house, he would have it.

Mr. FORD. Then he would have saved $8 a month for 3 years, or about $300?

Mr. FISHER. Yes; that is right.

Mr. FORD. I am telling you this because of the correspondence I am getting, and I would appreciate it if the Federal Housing Administration would do a little studying on it.

Mr. FISHER. We have studied it very carefully. In England there are a great many homes that have been financed with 5 percent down by the borrower, some sort of collateral being posted by the builder with the lending institution for the difference between 75 percent and 95 percent. So you see, in some cases, it might be a perfectly sound and safe transaction.

Mr. FORD. You have studied it?

Mr. FISHER. Yes; but, in general, it seems to me that we have gone as far as we should go.

Mr. FORD. I am thinking of these other facts, where there is a man that comes in and is willing to post additional collateral to support his obligation.

Mr. WOLCOTT. Mr. Chairman, I want to call attention to the fact that the House convened at 11 o'clock, and they are discussing the very important reorganization bill. As it is very apparent that we cannot finish the hearing today, and we have another important meeting at 12:30, I wonder if the committee will consider adjourning now?

The CHAIRMAN. Will you let Mr. Barry ask his question first?

Mr. BARRY. Dr. Fisher, last year there was put in the act a provision allowing a sum up to $75 for foreclosure cost, in the event foreclosure took place before 20 percent of the amount was paid in. At that time, we were greatly concerned about whether or not they would come in and participate under the F. H. A. plan, the lending institutions. To my knowledge, they are now competing with each other, around New York anyway, to get in. I know some of the institutions are setting up separate departments and really putting brokers out into the field looking for buildings or builders who are going to start new construction jobs, so they can lend them the money. In view of that situation, do you not think we might reconsider allowing $75, if they were induced to bring them in? Why should they not take some chance in the set-up?

Mr. FISHER. Well, under the foreclosure laws of the State of New York they take a chance on a considerable amount above $75.

Mr. BARRY. I appreciate that.

Mr. FISHER. I think the committee should carefully consider that. It is true that the fear the lending institutions had of the 90-percent mortgages has been largely dissipated in the New York area, but there are still numbers of areas in which it has not been dissipated. So it is a close question, I think, of whether the Congress should continue that inducement to make 90-percent mortgages.

The CHAIRMAN. All right, gentlemen, what is your pleasure?

Mr. PATMAN. Would the chairman be willing to suggest what he has in mind about the continuance of the hearing?

The CHAIRMAN. Not much longer. Off the record, now.

(Here followed discussion off the record.)

The CHAIRMAN. Without objection, the committee will stand adjourned until 10:30 tomorrow morning.

(Thereupon the hearing was adjourned until Wednesday, March 8, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

WEDNESDAY, MARCH 8, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Gore, Mills, Martin, Folger, Gifford, Crawford, Gamble, Simpson, Johnson, Kean, Sumner, Miller.

The CHAIRMAN. The committee will come to order.

Gentlemen, Mr. Morton H. Bodfish is here, and we will be glad to hear him.

STATEMENT OF MORTON H. BODFISH, EXECUTIVE VICE PRESIDENT, UNITED STATES BUILDING AND LOAN LEAGUE, CHICAGO, ILL.

Mr. BODFISH. Mr. Chairman, my name is Morton Bodfish. I am executive vice president of the United States Building and Loan League, which is the trade organization of the saving-and-loan associations, building-and-loan associations, and cooperative banks. Our organization has some 4,100 members and includes some 47 affiliated State organizations. We represent about 80 percent of the assets in the community-thrift and home-financing institutions of our type.

We are very interested in this present legislation, on account of our position and activities in the home-financing field. Our institutions deal only in long-term amortized mortgages. We have been in that business since 1831 and have made varying amounts of loans, per year. As a matter of fact, in 1938, we made about $700,000,000 in advances, about one-third of which was on new construction; and the previous year, about $800,000,000 in advances. Our institutions, almost without exception, are of the cooperative type; that is, they are mutual institutions, in which the earnings are distributed equitably to all of our 6,000,000 saving members. There are some 6,000,000 savers, who have entrusted their funds to these cooperative institutions; and all of that, except for the cash on hand for current needs and a small percentage of miscellaneous assets, is invested in long-term mortgages, repayable monthly.

I would like very much to proceed for about 10 minutes, Mr. Chairman, and then I will be glad to answer questions of the committee.

The CHAIRMAN. That will be entirely satisfactory. Go ahead.

Mr. BODFISH. Now, we, Mr. Chairman, are pretty seriously opposed to sections 2 and 3 of the bill that is before you, which would make permanent the insurance of mortgages on existing structures. At the

outset, I want to say that we raise no objection, whatsoever, to the continuation of title I, for repairs and modernization. We raise no question about the beneficial activities of title II, as far as new construction is concerned. We feel that a certain amount of employment has been created and, in the main, a good job has been done. We do feel, however, very strongly, that the credit, resources, and prestige of the Government and the appropriations of the people's money, which are being used under this act, should be confined to improving housing conditions in a manner which creates employment.

We do not feel that the insuring or endorsing of individual mortgages already in existence, of which there are $17,500,000,000 in this country, about $5,000,000,000 of which is in our institutions, creates any employment whatsoever, and we feel it is an intrusion into private local business which does not result in a compensating public benefit.

I want to call your attention to the fact that we have repeatedly taken this position, and last year, when this question was before the Banking and Currency Committee, this committee, the President of the United States had sent a message to Congress on the housing bill that was proposed. This message came on November 29, 1937, and the President suggested that the Congress arrange that the F. H. A. cease insuring existing mortgages. In fact, the President's language was:

> In connection with these changes, I would suggest that the Congress eventually limit the insurance of mortgages to houses on which the application for mortgage insurance is approved prior to the beginning of construction.

That means to confine it to construction loans, rather than to mortgages or private debts already in existence.

Mr. PATMAN. Please read that last phrase, where he uses the word "eventually."

Mr. BODFISH. In the President's message on November 29, 1937, Mr. Patman, he said:

> In connection with these changes, I would suggest that the Congress eventually limit the insurance of mortgages to housing on which application for mortgage insurance is approved prior to the beginning of construction.

Now, acting on that suggestion of the President, your committee, the F. H. A., and the Congress fixed June 30, 1939, as the date on which the insurance of mortgages on existing houses was to expire.

We feel that that present provision of the statute is a sound public policy and should be carried out. In support of that position, we are convinced that there is adequate capital in practically all communities, at reasonable rates—that is, in the existing local institutions in the communities to handle the refinancing of existing mortgages. As a matter of fact last year nearly $1,300,000,000 of that type of financing took place; and as there is capital available, as has already been suggested, as a public policy, we urge that the Government retire from that field of activity and terminate as now provided by statute. We do not feel that it is necessary for the Government to continue to assume risks for this class of loans, because, after all, there are substantial risks to the Government involved in the insurance of loans. Probably the risks are justified, if they create employment, as under title I and title II, for new construction; but the continuation of this insurance of existing mortgages results mainly, in our judgment and experience, in transferring or switching loans from one institution to another, and also, in many cases, gives encouragement to excessive borrowings on the part of home owners.

Mr. PATMAN. I did not get that last part. It gives encouragement to what?

Mr. BODFISH. To excessive borrowings on the part of home owners, especially when you have a large number of real-estate brokers and solicitors and Government officials running around the communities asking people to incur more debt. When that occurs, certainly some of them are being invited to excessive borrowings and to increase their indebtedness on the homes they now own. We feel very strongly on that point, and a little later—I have some copies of a piece of evidence that I want to submit to you for your consideration in that connection.

It seems to us, also, that the whole tenor of the times is for the Government to taper off some of its activities, and particularly attempt to encourage private business. We feel that the retirement of the Government from the field of endorsing or insuring existing mortgages is consistent with that policy which is being advocated by very influential leaders in the Government at the present time.

So our objection comes down solely to the question of interference with existing private institutions, or the insurance of existing mortgages on existing structures. There mortgages are now held by financial institutions and individuals.

We have been reasonably cooperative with the Federal Housing Administration. Many of our institutions are approved mortgagees, some of them have made loans under title I, but we are very much of one mind on section 2 of H. R. 3232 and believe that the local institutions can move ahead in this country and do the job without the United States Government's credit and promotional Governmental activities to insure existing mortgage debts.

Now, a number of arguments are made as to the necessity of insuring these existing mortgages——

Mr. PATMAN. I wonder if you will let me ask you one question?

Mr. BODFISH. Yes; certainly.

Mr. PATMAN. I am not trying to get you off of your train of thought, but you stated that, if it would create employment, you would be in favor of it. Is there not another reason for it, and that reason is to eliminate these second and third mortgages and these frequent renewals at high renewal fees and higher rates of interest? Do you not think those factors should also be given consideration——

Mr. BODFISH. I will be very glad to consider them.

Mr. PATMAN. As well as the creation of employment?

Mr. BODFISH. Yes; I will be very glad to consider them, and employment is one of the reasons, Mr. Patman, that we raise no question about the activities of the Federal Housing Administration in regard to new housing, in the new construction field. Now, the bulk of——

Mr. PATMAN. I mean on old construction, is not that a fact worthy of consideration if the Government can, by the use of its funds, save the people hundreds of millions of dollars a year in renewals and high interest rates, and save them from these loan sharks over the country. Do you not think that is worthy of consideration?

Mr. BODFISH. If anything will do that for sure, I think it should be considered and explored very thoroughly.

Mr. PATMAN. Do you not know this will do it?

Mr. BODFISH. No; I do not know it will do it, but I will be very glad to discuss it. In the first place, the bulk of the second mortgages in this country arise in connection with new operations. A builder builds an individual house, or a real estate promoter, something of that sort, builds a house, and he says, "Here, I will sell this house on a small down payment," and thereby the bulk of your second mortgage paper had its origin in connection with building operations; and your 90-percent loan on new small homes and 80 percent on new large homes certainly eliminated the second-morgage feature from new construction, where most of the second mortgages arose.

Now, as far as the second-mortgage business again flourishing in this country, I would just like to try to be practical and entirely straightforward, there was not, to my knowledge, a second-mortgage company—and there were quite a few around the country, that did not go broke in the last depression. I do not know of any that are wholly solvent anywhere or who are continuing in the second-mortgage business.

Mr. PATMAN. That did not cancel the debts of the home owners, the fact that the companies went broke?

Mr. BODFISH. No, but the significant thing is that men with any prudence or judgment are not going to invest funds in those kinds of securities.

Mr. PATMAN. That is the reason the people have to pay such high interest rates, when the loan companies have to take such risks as they know they will have to take in view of experience. That is the reason people have to pay very high interest rates, is it not?

Mr. BODFISH. I submit to you as a practical matter that the second-mortgage business is gone, and I cannot imagine any prudent man putting any capital in it, no matter what the return would be.

There is another thing: If you admit it is so risky, we might raise the question as to whether those risks should be transferred to the United States Government for the benefit of the financial institutions, if there are such colossal risks and if borrowers are to go to such high percentages.

May I, as a matter of courtesy, Mr. Patman, finish my statement?

Mr. PATMAN. Yes, indeed.

Mr. BODFISH. There is another thing on this whole second-mortgage question, and that is this: I believe that every well informed, experienced lender on residential real estate in this country is going to follow the lead of the Home Owners' Loan Corporation, the Federal Housing Administration, and if I may say so, the savings, building, and loan associations, in putting all of their mortgage debts on long-term, monthly, amortized basis. There was no second-mortgage business, in the main, above the building and loan mortgages, that existed in this country, because we made high percentage long-term amortized loans. We have the insurance companies that are diverting their mortgage lendings away from the old short-term mortgage, and the banks and the mutual savings banks have widely adopted the amortized loan; and, I do not see any danger of a recurring of the second-mortgage business as regards either new construction or existing construction.

Mr. PATMAN. I would like to interrogate you, if you have finished with your statement.

Mr. BODFISH. I have not finished, Mr. Patman.

Mr. PATMAN. I would not want to attempt to divert you from your prepared statement, if you have not finished.

Mr. BODFISH. I would like to finish my statement, if I may, although I do not want to imply that I would not answer your question.

Mr. BARRY. In connection with Mr. Patman's question, do you contend that, if there is a substantial amount of money available at low interest rates, it is not going to reduce the level of those high interest charges?

Mr. BODFISH. Congressman, there is no question but what the whole level of interest rates, in all forms of business activity, has fallen. In other words, some years ago, when the banks used to pay 3 and 4 percent on savings, the Government paid 4 and 4½ percent for its money. We now find banks paying 1½ and 2 percent on savings. Life-insurance policies and annuities are on a much lower basis. All industrial financing and municipal financing are at much lower rates; and on the side of the home mortgage borrower, you have much lower prevailing rates.

Just to develop the thing for a moment, 10 or 15 years ago it used to cost us 5 or 6 percent, in order to get the citizens of your community and mine to put their money in building and loan associations, and we loaned it at 7 and 8 percent. That was the only money that was available for long-term amortized loans, and we gathered it together and loaned it out. Now, we can get money at 3 and 3½ and 4 percent and lend it at 5 or 5½ and 6, because there is a great amount of capital, both from individuals and institutions, seeking investment, and the whole level of interest rates, both to the investor and borrower, has been lowered. Part of that has been due to the influence of the Government's policy, but I cannot forget that, as you study the question, that in the early 1900's there was mortgage money all over my city of Chicago at 4 percent, and the rates fell to varying figures in other parts of the country. When there is a large amount of money available rates are low as today.

Mr. PATMAN. Are they not lending money in various parts of the country at 7 and 8 percent?

Mr. BODFISH. At the present time?

Mr. PATMAN. Last year, or 2 years ago?

Mr. BODFISH. I would think, may be, there are some small communities, where there are small banks or financial institutions, still lending at 7 or 8 percent. I know I saw some Federal Reserve statistics that showed a range of 6 to 8 percent on mortgages in the Southwest, but I think you will find there were very unusual circumstances. I would say that mortgage money in this country is at about 4 percent bottom and 6 percent top, with most of it being loaned at 5 and 5½ percent.

Mr. PATMAN. Do you have any power to regulate this question of the amount of interest, or the amount of return that you pay on investments made by people in your building-and-loan associations?

Mr. BODFISH. We only have the power in this way, Mr. Patman: Here is a group of citizens who get a charter either from the State of Texas or the United States Government here——

Mr. PATMAN. It depends on the local State laws, does it not, if any?

Mr. BODFISH. No, it depends on something else. This group of citizens starts out to establish a home-financing institution. There are 9,000 in the country. They go around and say, "Congressman

Patman, we would like to have you save some money with us," and you say, "What rate are you paying or are you going to pay?" and they are going to have to pay the rate which will attract funds in that community. In that way, they will get a fund of money together to make mortgage loans, and they have got to have a sufficient spread to create reserves, to pay their expenses, and absorb their losses.

Mr. PATMAN. There is a way of regulating the amount banks can pay, but there is no way of regulating the amount building and loan associations can pay.

Mr. BODFISH. We pay to the investor?

Mr. PATMAN. Yes.

Mr. BODFISH. You have eliminated any interest on commercial accounts in banks, and you regulate the top on savings.

Mr. PATMAN. Yes; but not the building and loan associations.

Mr. BODFISH. No; not at the present time. I think it is a good thing that there are some financial institutions back in the country that are not regulated from Washington.

Mr. PATMAN. There is a concern out in California, this $50,000,000 concern, that would not have gone broke if it had been regulated from Washington?

Mr. BODFISH. I think so. To be perfectly honest——

Mr. PATMAN. Is there any reason why the building and loan associations should not cooperate with the Government in these activities?

Mr. BODFISH. None whatsoever; but when it comes to an expansion of the activities or the permanent policies of the Government, as far as insuring mortgages on existing construction, we come here to the policy-making body and make our suggestion as to that policy. When you gentlemen make up your minds, whether you agree with us 50 percent or 100 percent, or no percent, we are going to smile and go on cooperating with the Government.

Mr. PATMAN. I was very much impressed with what you said about the Government using its resources in competition with private industry. I want to get some information from you as to how far the Government has gone, not only in this particular act, separate and apart from the building and loan associations, but how far it has gone in the direction of help building-and-loan associations by, as I understand, the Federal Housing Administration that we are now considering, as separate and apart from the Home Owners' Loan, separate and apart from the Federal Building and Savings Bank, separate and apart from the Federal Deposit Insurance Corporation, or the insurance corporation that insures mortgages for building-and-loan associations.

Mr. BODFISH. Yes.

Mr. PATMAN. In other words, it stands out by itself. I can see some reason why there would be a little competition between them, and I want to find out, if I can, if the criticism by Mr. Fayhe and others is justified.

Now, if I understand it correctly, the Government put up quite a bit of money to help the building-and-loan associations?

Mr. BODFISH. That is right.

Mr. PATMAN. Just enumerate the different amounts and the different activities that the Government has contributed and engaged in, that has contributed to the success and welfare of the building-and-loan associations.

Mr. BODFISH. I would be very glad to discuss that phase of the thing, Mr. Patman, and I would like to comment on your reference to Mr. Fayhe.

Mr. Fayhe appeared before the Senate Banking Committee, and I think his studies include some very valuable suggestions as to the solution of this problem, and I hope this committee will call him up and get his views before you act on H. R. 3232. He is the head of the branch of the Government that has the biggest interest and experience with this mortgage question, and I just hope this committee will call him.

Mr. PATMAN. Suppose you enumerate, if you will, the different activities the Government has engaged in to help the building and loan associations, and the amount of money contributed by the Government.

Mr. BODFISH. In the first place, let me say that the Government has been very fair and very generous with our institutions.

Mr. PATMAN. And has been very helpful?

Mr. BODFISH. It has been very helpful, as it has been with the banking institutions throughout the country. However, we have received the same type of assistance in the emergency and the crisis period that the other institutions have received. We can start out, for example, with the Home Owners' Loan Corporation. When we went into the depression, there was about $21,000,000,000 of mortgage debt in this country on urban homes, four families or less. We held, at that time, approximately $9,000,000,000 of that. A small portion of it was held by commercial banks, another small proportion held by insurance companies, and some by savings banks, and a considerable amount by individual investors.

The scheme of the Home Owners' Loan Corporation, as you know, was to take mortgages and give Government bonds in exchange for them. We received about $770,000,000.

Mr. PATMAN. That was very helpful to you, was it not?

Mr. BODFISH. Very helpful; but let us get to the point that that was 13 percent of our mortgage holdings. That was 28 percent of the bonds issued by the Home Owners' Loan Corporation. The commercial banks and savings banks of this country received 34 percent of the bonds issued by the H. O. L. C., which was something like 26 percent and 12 percent of their entire mortgage holdings, respectively.

Mr. PATMAN. Who was that?

Mr. BODFISH. The commercial and savings banks, and their interest in the mortgages was much less than ours. The H. O. L. C. took off of our books about 13 percent of our mortgage holdings. That took 26 percent of the mortgage holdings of commercial banks, and about 21 percent of the mortgage holdings of individuals. So, proportionately, we did not do so well, in the aggregate.

Mr. PATMAN. Maybe you were not so much in need as the others.

Mr. BODFISH. I think it was partly due to the fact that all of our business had been on a long-term amortized-loan basis, and also many of our loans were seasoned.

Mr. PATMAN. I am afraid I am taking too much time of the committee, so I will stop.

The CHAIRMAN. Just one minute before you leave that. Of course, it is easy to understand that your type of business does not

require or necessitate the help the others did, but in this connection, it should be said that the Home Owners' Loan Corporation was not passed primarily for the relief of any institutions but to save the homes of people who were about to be turned out into the streets.

Mr. BODFISH. It was a double-barreled shotgun affair: To assist home owners and to put liquid assets into financial institutions, closed banks, commercial banks, and building and loan associations also.

Mr. PATMAN. You have not finished your general statement?

Mr. BODFISH. No; I have not. To continue with the general statement for a moment, we feel that this lending or insuring activity has a very adverse effect on community financing institutions.

Now, here is a group of citizens that have gotten together a fund of money, and they get it from the citizens in their communities and they accumulate it, and we call it a savings and loan association. And they go along and invest all of it in long-term amortized mortgages. Our cooperative associations have gathered a substantial amount of money together. We have about $6,000,000,000 in the whole country. And then comes this F. H. A. scheme, which we do not object to, so far as it moves a saw or swings a hammer; but through the activity and credit of the United States Government in insuring these existing mortgage notes, the mortgages are sold and trafficked in up and down the land. They have handled about $200,000,000 through Government purchase at the Reconstruction Finance Corporation Mortgage Co. and the Federal National Mortgage Association, and the mortgages due to the Government assumption on risk of loss are coming to be the same as Wall Street paper, and that means that much of the mortgage business, which should stay in the communities and be done by community institutions, is being taken by the Government and to the eastern capital centers of the United States.

Now, our thesis is this: That we believe this country will be better off if we have strong, private community institutions, and I do not care whether they are banks or savings and loan associations, who gather up the savings with a thrift program in the community, and relend it right out in the community.

I have a photostatic copy of a letter here.

(The letter referred to is as follows:)

FEDERAL HOUSING ADMINISTRATION,
Washington, D. C., November 29, 1938.

Re lower monthly payments
on the home you build,
buy, or already own.

DEAR SIR: Did you know the Government has recently made it possible for you to borrow as much as 90 percent of the value of a new home you may want to build?

Did you know the Government has arranged a way for you to borrow as much as 80 percent of the value of an existing home you may want to buy; or the home you now own, if you want to refinance that?

These things are now possible under the revised and amended plan of the Federal Housing Administration, if you have a steady income and good credit. Are your monthly payments burdensome on your present home? Would you like lower payments under present conditions? Did you know that loans are now available at low interest rates, and that the payments on loans for new construction may be spread out to a maximum of 25 years; or that on the home you now own, or may want to buy, payments may be spread over a period up to 20 years? You can readily imagine how such a long term of years at a low rate of interest will cut down your monthly payments. Thousands of people are eagerly taking these loans today.

Government men will be present to tell you all about this plan at a Federal Housing meeting to be held in your city at the basement sample room of the Lincoln Hotel at 8 p. m., Thursday, December 1, 1938. Are you considering a loan to build a new home or duplex? Are you considering buying a home, and do you want information about the best possible loan for you with the longest term of years? Are you tired of the heavy monthly payments you are now making on your home? Do you want to refinance that loan to spread the sum out over a longer term of years with lower monthly payments?

If you have any of the above thoughts in mind you would be making a mistake if you failed to attend this meeting Thursday evening at the Lincoln Hotel. Your neighbors will be there to get first-hand information. Do not depend upon asking them about the facts. Come yourself, please, and ask questions if you like.

Yours very truly,

EDWARD M. SLATER,
District Manager.

This will give you a very practical picture of the thing we are dealing with. This communication is on the Government stationery, sent out under Government frank, to all of the mortgagors of record in certain community, and it has happened in hundreds of communities around this country, and this says to every citizen:

Do you know that the Government has recently made it possible for you to borrow as much as 90 percent of the value of your new home you want to build?

In paragraph 2 it says:

Do you know that the Government has arranged a way to finance the home you want to build, or the home you now own, if you want to refinance it?

And it then goes on and says:

Are you tired of heavy monthly payments you are making on your home?

and then refers to loans made for a longer term of years.

We do not think that our Government or the personnel of our Government, or the funds of our Government should go out into our communities and attempt to put on a program for the citizens to merely switch existing mortgage paper from one institution to another. The incentive for doing that is that the new mortgagee lend them more money; whereas the real-estate men and mortgage brokers and the local brokers make a commission on the transaction. We think that is a very definite intrusion into private business; and we also think it injures the development of community financial institutions, who should and can take care of existing mortgages and refinancing without the Government's assistance.

Mr. PATMAN. Your main objection is to the possible loss by the Government on the insurance, is it not?

Mr. BODFISH. Our objection is because it injures business, takes business away from the local or community institutions, that have spent decades building up a fund of capital. The argument against it is that the Government—and that is the argument that we should be concerned with as citizens, that the Government is insuring that mortgage paper and assuming the risk of loss, in order to get a piece of mortgage paper that can be sold here in Washington to Government agencies or in New York, and traded and trafficked in.

Mr. PATMAN. Do you think there is much of a risk, when they get one-half of 1 percent?

Mr. BODFISH. We have had a lot of experience in the business of long-term mortgages, and I want to tell you frankly—and I am willing to almost make a wager on it—that 5 years from now they will find it takes one-half of 1 percent to keep the books and carry on the general administration of the business, to say nothing of losses.

Mr. PATMAN. Compare it with insurance on building-and-loan associations. The Government put up $100,000,000 to organize an insurance corporation to insure your mortgages, did it not?

Mr. BODFISH. No, sir.

Mr. PATMAN. How much did it put up?

Mr. BODFISH. The Government put up $100,000,000 to insure the investments of millions of citizens, just as it put up some several hundreds of millions to insure the deposits in the banks of this country, and that is a lot different thing than insuring individual mortgages.

Mr. PATMAN. But anyway, the Government has invested $100,000,000 to protect the investors, has it not? I say it should have done it.

Mr. BODFISH. But just as it did in the Federal Deposit Insurance Corporation.

Mr. PATMAN. But the Government did do it?

Mr. BODFISH. Yes.

Mr. PATMAN. It requires you to pay an interest rate, a certain percentage, as a sort of insurance premium, does it not?

Mr. BODFISH. A percentage of the insured accounts.

Mr. PATMAN. And the rate is one-eighth of 1 percent, is it not?

Mr. BODFISH. Let me answer this way: We are responsible for three times the premium charged to the commercial bank, because——

Mr. PATMAN. I am not talking about the banks, now. Let us forget them just a moment, because we are talking about building and loan associations, and the rate is one-eighth of 1 percent, is it not?

Mr. BODFISH. That is right; and an assessment of one-eighth of 1 percent.

Mr. PATMAN. The Government is running the risk of its money by taking all of your loans of your investors, not seeing any of them, not passing on any of them, not appraising any of them, for an insurance premium of one-eighth of 1 percent, and you are bound to say that is reasonable and it is sufficient. So if it is reasonable and if it is sufficient, why is it not reasonable and sufficient, when the Government goes out and selects its risks, and only takes the best, and charges one-half of 1 percent?

Mr. BODFISH. There is a very clear answer to that, Congressman, and I would like to attempt to elaborate on it.

Mr. PATMAN. I would like to have your explanation of that.

Mr. BODFISH. In the first place, there is no similarity between the transactions. It is one thing to take the risk of insuring an investor and depositor in a bank or a shareholder in a building and loan association, where you have experienced and responsible local management and reserves in those institutions that have accumulated over a period of years, which takes the losses; and furthermore, it is not true to say they do not inspect them or appraise them, because institutions insured are examined each year and if there is an institution that is not obviously solvent, with ample reserves, they inspect them and appraise doubtful assets and suggest policies which will remedy the problem. Furthermore, their inexperience and the fact that the association absorbs its own losses from earnings or profits. I think those institutions probably have made more home loans on individual mortgages than any other financial group, and have absorbed their losses out of their own earnings and reserves, and the whole losses in the Federal Savings and Loan Insurance fund have been, I think, about

$500,000, during which time there has been paid in something over $12,000,000 or $14,000,000 in earnings and premiums above expenses.

Mr. PATMAN. Let us say, getting it down to a simple answer, so I can understand it, suppose that a building and loan association had one investment of $5,000—I will give you a case that is not practical, but it will illustrate the point—one investment of $5,000. Now, then, there is one-eighth of 1 percent which is paid to this insurance corporation, that is, the Federal Insurance Corporation, as an insurance premium to guarantee that $5,000 investment against loss; is not that correct?

Mr. BODFISH. That is right.

Mr. PATMAN. That is your case. The Government using the Federal Housing Administration selects its risk, puts up 80 percent of the appraised value, and collects one-half of 1 percent, instead of one-eighth of 1 percent as an insurance premium. I just cannot understand why one-half of 1 percent would not be perfectly safe in a case like that, if one-eighth of 1 percent would be safe in your case.

Mr. BODFISH. If the two are analogous and the same thing, you would be right.

Mr. PATMAN. I consider them analogous. Of course, one is insuring investments, that is true, and the other is loaning money. After all, an investment is made in the loan.

Mr. BODFISH. That is right, but the institution pays its investor about 3 percent, and probably puts one-half of 1 percent in its own reserve to take the loss on the thing, and conducts its business by building up a margin or cushion with which to take its own losses; and the probabilities are that there will be no loss to the secondary insuring agency.

What you are doing down here in the Government, Congressman, is going out and making 80-, 90-, or 100-percent loans, because you cannot appraise them that accurately——

Mr. PATMAN. So are you. The building and loan associations do the same thing.

Mr. BODFISH. Yes; and we were doing pretty good.

Mr. PATMAN. And the Government, of course, insures the investments in them.

Mr. BODFISH. That is right, but they take the mortgage-insurance premium, and we say they endorse each mortgage or piece of paper against all losses. It just seems to me a much different thing to insure an individual mortgage out in the individual communities and to come to the Government for the repayment of each and all losses than to insure bank deposits and savings and loan shares for an institution that has reserves, management, and an ample cushion to take its own losses.

Mr. PATMAN. Now, another question that bothers me is this: If we do not pass this legislation, what will happen to people who are making incomes of $1,200 or $1,400? Are they amply taken care of in the building and loan associations?

Mr. BODFISH. Yes.

Mr. PATMAN. How low down are they taken care of; I mean in annual income?

Mr. BODFISH. We get down about as far as $1,000 or $1,200.

Mr. PATMAN. Do you cater to that class of business?

Mr. BODFISH. We cater to the class of business ranging anywhere between $1,400, $1,200, $1,500 or $1,800, and up.

Mr. PATMAN. Do you give them the same consideration?

Mr. BODFISH. Your Federal Housing Administration is not catering to that class of business. The income of the average borrower with an F. H. A. insured mortgage in 1938 was $2,400. For a hundred years we have dealt with humble people in this Nation and with persons of much lower incomes. We have had a place where a man, often without a banking connection, could go and get a loan, and that group consists of about the middle one-third of our people.

Mr. PATMAN. In other words, you help the lower-income class to submerge the other two-thirds?

Mr. BODFISH. No; I would not stand here and say that the financial institutions have given credit to the lowest one-third, but I will say the building and loan associations have dealt more with the lower-income group than any other financial institutions.

Mr. PATMAN. Did you ever see a publication like this one here put out by your organization?

Mr. BODFISH. Yes.

Mr. PATMAN. It is put out by the United States Building and Loan League, 333 North Michigan Avenue, Chicago, Ill.?

Mr. BODFISH. That is right.

Mr. PATMAN. That is the organization you speak for?

Mr. BODFISH. That is right.

Mr. PATMAN. That is the trade association for the building and loan associations?

Mr. BODFISH. Yes; that is right.

Mr. PATMAN. Let us look at some of the questions here. "What have you to sell? 1. Savings service. 2. Loan service. Where is your market? Your market is the natural area of your community." This is an appeal of the lender in the building and loan associations?

Mr. BODFISH. That is not what it is.

Mr. PATMAN. What is it, Mr. Bodfish?

Mr. BODFISH. It is an advertising appeal to the institutions, suggesting that more people can buy homes with incomes of $1,400 and up, and more people who can save money to buy, from $1,400 up. It was issued to institutions suggesting how best to spend their advertising dollar.

Mr. PATMAN. It says: "Who is your market? (People make markets.) The 'top half' families make the best market! What are 'top half' families?" Then it says that "top half" families are families with incomes over $1,446 per year, and the bottom half are families with incomes less than $1,446 per year. "Medium average based on consumer purchase survey, Departments of Agriculture and Labor."

Now, on the next page: "The 'top half' comprises 50 percent of United States families and 70 percent of the buying power."

I really thought there was more buying power than that. But I guess these figures are right.

"The 'top half' spends 63.7 percent of all money spent for shelter. Housing loans are your business."

And on the next page: "Savings are your business."

Then on the next page it says, "How about the 'lower half'? It's a market you don't want!"

Do you mean that, Mr. Bodfish, "It's a market you don't want"? "They spend 10 percent of their incomes. Food and shelter alone eat up 76.6 percent of their incomes. They can't save. They can't buy homes. So forget the bottom half."

Then you have a picture here of an eight ball and it says—you have a picture of some heads sticking out, and one says, "Can't save." Another one says, "Always behind." Another one says, "Owes everyone"; and another one says "Dead beat"; and another one peeks around and says, "On relief."

Of course, there is a strong inference there, Mr. Bodfish, that the people who are in that income group, less than $1,446, that are kind of dead beats; that they are not capable of managing their affairs, and should not be considered in the housing program; is that not right?

Mr. BODFISH. Are you ready for me to speak?

Mr. PATMAN. Yes.

Mr. BODFISH. If I might have the floor for a minute, I do not hesitate, at all, Mr. Congressman, to say that our institutions have come closer to dealing with the lower-income group than any other financial institutions. Our average loan, last year, by official Government statistics, was $2,200, while the F. H. A.'s was more than twice that; and if an advertising department in contact with institutions only, trying to sell a housing advertising program, which has nothing to do with the public policy, suggests to the institutions that more people with incomes over $1,400 can buy homes and can save money, I feel no embarrassment about it at all.

What we have known for a century is that the working man's institutions and people's banks that would take a fellow with a small down payment in house purchase, and husband and reward his savings—in that way, we have come closer to dealing with the lower-income group than anyone else. Obviously, the people just making a subsistence should not be buying houses, and they should not be urged by the Government to attempt to buy homes until they have got a stronger economic position and some savings.

Mr. PATMAN. Now, Mr. Bodfish, of course this question of interest bothers me. I am in accord with the building and loans. I appreciate that they have done a wonderful work in this country and I have no word of criticism. But at the same time, do you not want this Government to try to do something, whatever can be done, to help the people who have suffered by reason of these second and third mortgages and these excessive and usurious interest rates? I notice that all of the telegrams and letters I get, or most of them, say, "Now, we are opposed to title II." Some of them say they are in favor of new construction under title II. Some of them are against title II entirely, but they all wind up by saying they are in favor of title I.

That indicates to me, whether I am right about it or not, that the interest rate must be the main factor, or at least the determining factor. Title I carries 9.7 percent interest, and they are willing to accept that. But on the other, where the interest rate is very low, they are not willing to accept it.

I wonder if you would object to the law being amended, so that the building-and-loan companies could not get their paper discounted with the home-loan banks, if they charged in excess of 5 percent interest?

Mr. BODFISH. Do you want to regiment and control, Mr. Patman, all of the competing companies and associations and all of the banking institutions? We will not like that, and will be indignant about it but we can live under it if it is universally applied to banks, credit

unions, and the like. It so happens that about 2 percent of those title I loans were made by the building and loans themselves, and about 75 percent were made by the National and State banks. We made practically all of our property improvement loans under our regular mortgage plan and regular interest plan, ranging from 5 to 6 percent these days.

Mr. PATMAN. And you did not even charge 9.7 percent?

Mr. BODFISH. In very, very few instances as most of our repair and modernization loans were made right on our regular plan. We have been in the repair and modernization loan business for years, but we commend title I because we did not want to come before this committee when there are still 10,000,000 people unemployed, and raise any objection to anything that creates employment.

Mr. PATMAN. You must realize that it is the duty of the State, and in certain cases the Federal Government, to regulate the amount of interest that can be collected from people?

Mr. BODFISH. That is right.

Mr. PATMAN. You recognize that, do you not? That is customary in this country, is it not?

Mr. BODFISH. Yes.

Mr. PATMAN. Would you object to a provision that would make it impossible for the paper to be discounted, if interest in excess of 5 percent is charged?

Mr. BODFISH. Would you apply the same thing to all other lenders, and put it in terms of cost to the borrower? You realize that the F. H. A. has never insured a dime to anybody for 5 percent; and it is from 5½, 5¾, and 6 percent, and so on, cost to the borrower?

Mr. PATMAN. It would not be discrimination against you, because you could make these 9.7 loans, too. I am just talking about discounting the paper with the home loan banks.

Mr. BODFISH. Listen! We can live under it, if you put that in and apply it in terms of cost to the borrower and to all lenders, including banks. We do not like it, because we do not think this kind of thing ought to be regulated entirely from Washington and controlled from Washington.

Mr. PATMAN. Is not the fact that 1 percent margin is sufficient?

Mr. BODFISH. It never has been.

Mr. PATMAN. Like the Federal land bank has demonstrated that 1 percent is sufficient? Although I believe it is the minimum.

Mr. BODFISH. Yes; but you gentlemen are appropriating $30,000,000 or $40,000,000 every year to pay the deficits.

Mr. PATMAN. Would that be necessary if we took into consideration the fact that we can refinance those bonds for 3 percent and 3½ percent and less?

Mr. BODFISH. There is not a business in the United States, Mr. Congressman, that can survive in a position of competition with its Government. If you let private business do it, it will take probably more for private business to raise a fund of money in Paris, Tex., than for the Government to sell bonds and——

Mr. PATMAN. Yes; and we do not want that competition, but there are social reasons why the Government should use its credit for the benefit of its citizens. It occurs to me that those reasons should be taken into consideration, as well as the economic reasons that are involved.

Mr. BODFISH. If there are social reasons why the Government should take the responsibility for raising all of the funds for the credit operations of this country and lend it back——

Mr. PATMAN. Not all of it.

Mr. BODFISH. I did not get into the farm credit situation, at all. We raise no question about the new construction, because that is a constructive program for putting people to work. I do not see a social reason of any kind, for the credit of the Government to be used to take an existing mortgage out of the Paris Building and Loan Association and sell it to the United States Government, or the X. Y. Z. Life Insurance Co.——

Mr. PATMAN. Well, if the Paris Building and Loan Association gave the same interest rate as the Government gave, it would not be taken out, would it?

Mr. BODFISH. Yes; and we come right back to the same simple, definite proposition: No private business, financial or otherwise, can borrow money as cheaply as the Government can, and no institution can long survive, in competition, with its Government, in the lending business.

Mr. PATMAN. As I understand it, this program is not to take over the financing of all loans?

Mr. BODFISH. Why not? They want the privilege available to 10,000,000 families. They endorse the note with Government credit, and that is almost the same thing as lending the money.

Mr. PATMAN. But to establish a yardstick to determine the value of the services and the value of the use of credit, how much people should pay, and provide a way to protect them from excess payments and excess interest charges.

Mr. BODFISH. We have not had any trouble in meeting the F. H. A. in terms of rates. We have not been able to meet it in terms of loan percentages, because the United States Government will pay the losses on the insured loans and we take our own losses. But we still do not see why in the world the credit, the appropriations and the personnel of the United States Government should be brought out, just in order to stamp a mortgage that is made down in Paris, Tex., with the stamp of the United States, in order that it can be sold by the Government to another Government agency, or dealt and trafficked in around the eastern financial centers, taking the mortgage-loan business out of the community.

Mr. PATMAN. In 1932 the R. F. C. Act was passed, and it was to bail out the banks and insurance companies and railroad companies?

Mr. BODFISH. That is right.

Mr. PATMAN. It was for the use of the Government's credit?

Mr. BODFISH. In an emergency and crisis.

Mr. PATMAN. Yes; absolutely necessary.

Mr. BODFISH. That is right.

Mr. PATMAN. It was justified, all right. Now, since that time, we have used the Government's credit to guarantee deposits in banks; we have used the Government's credit—all of which I am commending not criticizing—we have used the Government's credit to assist the building and loan companies; we have used the Government's credit in many ways and for many different purposes; and if I remember correctly, this committee and the Congress really believed it was necessary for this Government to use and extend its credit, which,

after all, is just a blanket mortgage on all of the property of all of the people and a levy on the incomes of all of the people, for the purpose of assisting that class of people which are at the mercy of those who will charge excessive rates of interest.

It occurs to me that we would be justified in doing that, and I insist, Mr. Bodfish, not for the purpose of taking over the business, at all—I would not do that—not for the purpose of creating competition, but for the purpose of having, you might say, what Mr. Jones said was a shotgun in the corner for the purpose of protecting the people against these excessive charges and high interest rates.

Mr. BODFISH. Well, Mr. Congressman, on that, there are none of us that do not feel it is perfectly proper for the Government, State and National, to establish reasonable policies regarding the conduct of business institutions. However, this is one of the most dangerous things in the country, today, this line of reasoning, that because we do something in an emergency and we deal with the emergency nobly and effectively—that, therefore, it must be continued and expanded until the Government controls and dominates, for example, the private mortgage market. There is no reason in the world why the Government should endorse or control the $17,500,000,000 of existing mortgage debts.

The place to determine the appropriate interest rates is in the State legislatures and all of the other bodies which, from time immemorial, have set the maximum contract rates, and so forth, in this country; and we just do not see why we should continue to build up the arrangement here, dealing with existing mortgages, when we do not think there is any social purpose served by trading and trafficking in them up and down the land, and taking them away from the institutions that some private citizens have tried to build up in the communities, and the earnings from which are distributed to all of the members of those institutions.

Mr. PATMAN. How do you justify the consistency of that statement with the fact that you are in favor of extending title I? Now, that was created for the purpose, in the crisis, to put people to work, and you say that all of these emergency powers—there should be an end to them?

Mr. BODFISH. That is right.

Mr. PATMAN. Why should there not be an end to that title I?

Mr. BODFISH. Mr. Patman, if you want to end title I, you will not hear a peep from the building and loan associations. We have not objected and we are not objecting to its continuation, for the simple reason that we realize there is a social implication involved as to employment.

Mr. PATMAN. You are not advocating it; you are just not opposing it?

Mr. BODFISH. We are not objecting to it. I am trying to draw the line between the insurance of existing mortgages and social policy and social benefits.

Mr. PATMAN. But you are advocating title II, so far as new construction is concerned?

Mr. BODFISH. We are not objecting to it, because it is doing some good.

The CHAIRMAN. If you will just proceed with your general statement, we will appreciate it.

Just a minute. Off the record.

(Here followed discussion off the record.)

The CHAIRMAN. Go ahead with your general statement, and if we do not get through today, we will come back tomorrow and resume.

Mr. BODFISH. I will try to conclude briefly before 12 o'clock.

Again, our whole case, Mr. Chairman, turns entirely around this insuring of existing mortgages. I think it has been brought out very clearly in my responses to Congressman Patman's questions, that we want to build up these institutions, not only our own, but we think the community bank is a good thing in this country, rather than the Nation-wide banks and banking systems and the Nation-wide sale of mortgage securities. And we have insured some of our mortgages. We have worked along with the program, but in the main, we have done our business without asking the Government to endorse notes or asking it to take the responsibility for losses.

Now, among the arguments that I have heard regarding this existing construction, is the proposition that you cannot sell a new automobile, unless you finance the old one adequately, and I think that is a very plausible argument, but I would like to analyze that a bit. In the first place, it assumes that there is no credit available right in the community to handle that refinancing phase of the business. You cannot go anywhere in the country today, and pick up a newspaper, but what every financial institution, almost, is advertising for loans, that is trying to get its money out at rates starting at 4, 4½, 5, 5½, and sometimes 6 percent; and I would like to say a bit more, by using the analogy that has been discussed so much, that the automobile companies, in order to sell their new cars, do not come down and ask the United States Government to appraise the car, to endorse the paper or deal in used-car paper or debts, and I think that analogy applies in this mortgage field.

Now, one of the things that is bothersome about this picture is that it is developing a brokerage or commissions system of mortgage lending. In other words, the individual, without any particular capital, can go around and solicit a mortgage, and for a fee or commission of one or two points paid by the mortgagor, that mortgage is insured and it is sold to some firm in the East, or to the United States Government, and the like, and we are not sure that that is a most wholesome situation.

I want to emphasize again, as I said to Congressman Patman: We can handle the interest rate question and meet the F. H. A. charges to the borrower, but that was never 5 percent not even after you amended this act last year. Before your amendment it was 6.3 percent and on up, and not the 5 percent interest we heard so much about. It is a bit lower now. There is an average of 1 percent or 2 percent commission, insurance premium and title fees, and so on, then generous fees to the broker who dug up the proposition; our whole theory is that we will be as well off, if we build and encourage some stable community institutions, not exclusively of our type, because we have been doing only about 55 percent of the institutional lending business, and the savings banks and insurance companies and commercial banks have invested a portion of their capital in mortgages and should not need a Government guarantee to carry on.

Mr. PATMAN. I am in thorough accord with you fully about using the money and credit as much for the local community as possible. Twenty-four banks now own one-third of the resources of all of the 16,000 banks, and I consider that a very unhealthy situation.

Mr. BODFISH. Do you not realize that the essence of this thing is, that it puts the endorsement of the Government on them, so the big banks and insurance companies can buy them and deal in them like they do their bond transactions? That the banks even list the individual mortgages, the names, and so forth, with the amounts, and send a regular bond circular around and deal in them here and there and other places? I just do not believe that is a healthy, wholesome thing. If that is necessary in new construction, then let's withhold judgment and let it go on. But as to merely taking mortgages out of existing institutions, we see no reason for that.

Under section 3 of this bill, these words appear: "Have been made or assigned to, and be held by"——

The CHAIRMAN. That has been taken out, Mr. Bodfish.

Mr. BODFISH. Well, we have not labored in vain, then.

The CHAIRMAN. Let me suggest that no doubt, you are addressing yourself to the only matter to which you want to direct attention in this bill, and that is the question of insurance on existing construction.

Mr. BODFISH. Yes, sir. Well, now, Mr. Chairman, I think, unless there are questions, I can conserve the time of the committee by concluding this statement, and I would like to have in your record the semiannual survey of the National Association of Real Estate Boards dealing with the excess or shortage of mortgage money in the principal cities of the United States. I think that is relevant, because it shows the cities, large and small, and what the situation is as to interest rates and as to the availability of mortgage money.

The CHAIRMAN. There is no objection, I am sure, to putting it in the record.

(The matter referred to is as follows:)

THIRTY-SECOND SEMIANNUAL SURVEY OF THE REAL ESTATE MARKET COMPILED BY THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

[Released January 14, 1939]

Four things stand out in the survey findings:

1. Increased supply of capital available for real-estate loans, and, even more important, continued tendency to lower interest rates. The survey shows the most generally favorable situation in respect to both interest rates and mortgage money supply that has ever been recorded in the country's real-estate history.

TABLE VIII.—*Percentage of cities reporting an excess, equilibrium, or shortage of money for real-estate mortgage loans*

Section and size of city	Capital seeking investment	Equilibrium	Loans seeking capital
Total for United States	77	10	13
New England	78	22	
Central Atlantic	67	15	18
Southeast	67	6	27
Great Lakes	78	11	11
North Central	86		14
South Central	86	11	3
Northwest	87		13
Southwest	80	11	9
500,000 or over	100		
200,000 to 500,000	96	4	
100,000 to 200,000	87	10	3
25,000 to 100,000	80	11	9
Under 25,000	66	14	20
District and country boards	65	13	22

TABLE IX.—*Percentage of cities reporting rising, steady, or falling interest rates on mortgage money*

Section and size of city	Rising	Steady	Falling
Total for United States	2	69	29
New England		67	33
Central Atlantic	5	73	22
Southeast	7	63	30
Great Lakes		64	36
North Central		73	27
South Central		61	39
Northwest		80	20
Southwest	5	73	22
500,000 or over		73	27
200,000 to 500,000		54	46
100,000 to 200,000		58	42
25,000 to 100,000		75	25
Under 25,000	8	62	30
District and county boards	3	82	15

Mr. BODFISH. I would like to dispose of one point, and then there is nothing more for me to say, and that is this: That our people are opposed to the continuation of insurance on existing construction. I think one of the most significant things in that connection: The Federal Housing Administration has developed a committee, made up of some dozen or twenty very representative saving and loan association men, who have cooperated extensively with that program, and they have repeatedly recommended to the Federal Housing Administration that the activity in the insuring of existing mortgages was injurious, and I am advised they have submitted their views by telegrams to this committee. I think that evidence and their judgment is important, because, previously, as this committee knows, we have made some objections that might cause you to feel we are a little prejudiced on the F. H. A. matter. We never saw any excuse for insuring mortgages on existing construction. We have never raised any question, at any time, about financing new housing, property improvement, or about the new construction situation. I am not discussing, at all, the $6,000,000,000 situation. You gentlemen can dispose of that. We think it is extending, and unnecessarily, the amount, in the light of the performance to date, but I think there is no use of our going into that particularly, because you have all of the facts before you.

I think, Mr. Chairman, that concludes my general remarks.

The CHAIRMAN. Does anybody desire to interrogate Mr. Bodfish?

Mr. CRAWFORD. Mr. Chairman, I have one or two questions.

Mr. Bodfish, did I understand you to say that, if the Building and Loan League should be forced to operate on such a rate of interest income as pertains to the F. H. A. contract, in due course, such method of operation would withdraw the strength from the capital structure of the various building and loan units, and eventually lead to the entire Housing program coming within the operating scope of the F. H. A.? When I say "eventually," I mean within the next 10, 15, or 30 years?

Mr. BODFISH. Well, I think, Mr. Chairman, that we can exist, by the present F. H. A. cost to the borrowers—I mean by fees, 5 percent, plus mortgage insurance, fees to the real estate broker, and all this, that, and the other thing. We have a lot of stamina in our institutions, and I think we can survive. On the other hand, it looks to me as if there is an attempt here, in the existing mortgage field, to

push the control of this mortgage system over the whole market and to all home mortgages.

Now, if you get a scheme so that anybody can buy or sell them up in the great capital markets of the East, or down here to the Government we will have a pretty difficult time, but I think we can reasonably compete and get along though greatly hampered.

Mr. CRAWFORD. Let me put it this way, then: Suppose that anybody could operate, and the F. H. A. continues into the $6,000,000,000 zone, and the $12,000,000,000 zone and the $18,000,000,000 zone, and Congress sees fit to further reduce these rates to 4 percent, instead of 5 percent, maybe 6 percent instead of 9.7, then do you feel that private enterprise could survive under such conditions?

Mr. BODFISH. I doubt it. I think that is one of the real dangers, if it continues to advance short-term money, which costs 1 percent, or 1½ percent, into this field, by the rather interesting scheme of saying, "We will endorse the paper and the United States Government will take the real estate and take the losses when the depression comes." I think that may make it very difficult for the institution that says to its people, "We are going to invest all of your money in long-term mortgages. Therefore, we know we are going to have to pay savers more for money than the rates on short time money."

Mr. CRAWFORD. My question assumes that sort of program will be continued and the cheap-money-rate program will be followed and, eventually, we will move into the era where the Government can borrow money at 1 percent. I am assuming all of that. Now, in that event, assuming that sort of proposition, do you feel that the private industry, as represented by your league, will eventually be counted out of the picture?

Mr. BODFISH. Yes.

Mr. CRAWFORD. Are you familiar with Mr. Hopkins' statement in the Des Moines speech, with reference to the value he put on private industry?

Mr. BODFISH. Yes; and I hope all of the members of the committee are familiar with it, because I think we are making a plea for private and local business interests and community responsibility.

Mr. CRAWFORD. You feel, in making your statement, that you are conforming to the philosophy stated by Mr. Hopkins in his Des Moines speech?

Mr. BODFISH. I think I referred to influential individuals in the Government and their policy of encouraging private enterprise.

Mr. CRAWFORD. Just one other question: Do you believe that the low interest rates, or the so-called cheap money, tend to induce a man with savings to keep his money out of private industry, or does it tend to cause him to bottle it up, because private industry, in the form of interest return and profits, promises nothing for the use of it?

Mr. BODFISH. I think you can get the return too low on our savings. You see, when you destroy the thrift program of the middle class, it affects the country generally, and I think that is a very dangerous thing for this country. I do not think any of us feel that the former interest rates on bank deposits, building and loan shares, insurance policies, or anything of that kind, are going to return, but we certainly should not depress them so far that we cause anybody to look to the Government for their old age, for their protection, for their housing, and for everything else. Now, the proper level or limit of earning on savings is the question of prudent judgment.

Mr. PATMAN. Mr. Chairman, I have a couple of questions I want to ask him.

There are a number of building and loan associations insuring all of their mortgages in the F. H. A. Would there be any objection, as far as you can see, for this practice to become general; and if that is the way of preventing the building and loan associations from ever being large owners of foreclosed properties, and thus keeping them liquid?

Mr. BODFISH. In other words, cooperate 100 percent in a scheme, in which, in the next depression, the United States Government automatically takes all of the foreclosed real estate and issues the direct obligations of the United States Treasury to the financial institutions? I suppose that would be the easiest and most expeditious way out, but I think it is a terrible way to handle the financial situation of the country and a questionable public policy besides.

Mr. PATMAN. You are not figuring on another depression?

Mr. BODFISH. Yes; in a certain number of years you are going to have a depression. I do not think the business cycle has been legislated out of existence.

Mr. PATMAN. We have not repealed it, or the law of gravitation, or the law of supply and demand.

What control has the United States Building and Loan League on the Home Loan Banking System over these interest rates, and how can they be affected in making a reduction in the interest rates?

Mr. BODFISH. The United States Building and Loan League has no control over the interest rates of its members, only insofar as its leadership influences the policies of the various member institutions. It is a question of education and example. As far as the Home Loan banks are concerned, they have exactly the same control as the 12 Federal Reserve banks have over the banks of this country—practically none.

Mr. PATMAN. None?

Mr. BODFISH. None.

Mr. PATMAN. Oh, yes; the Federal Reserve banks have some control of interest rates.

Mr. BODFISH. Just the Federal Reserve, but it does not determine the rate at which the bank in Arkadelphia is going to lend money to Tom Jones.

Mr. PATMAN. No; I am talking about the time deposit interest rates; it will have something to do with that.

Mr. BODFISH. Maybe you are really my friend and ally. Are you going to help to try to get some cheaper money here for the building and loan associations?

Mr. PATMAN. You are getting all you want.

Mr. BODFISH. We are getting a pretty good bit.

Mr. PATMAN. Many of your associations are refusing investments.

Mr. BODFISH. Yes; but we are not overwhelmed with money yet.

Mr. PATMAN. So that the objection to the Home Loan Bank Board regulations, or the act being amended to the effect that the discount privilege would only be available on mortgages not to exceed the going F. H. A. rate?

Mr. BODFISH. They talk about 5 percent, and it costs the borrower half a point more, or a point more. I will say, frankly, if you want to regiment and control the interest rates of all of the financial insti-

tutions here in Washington, we can live under it, although we are going to be awfully mad about it.

Mr. PATMAN. I oppose regimentation. I do not consider it regimentation, though, to fix the interest rate. I think you are using the word rather loosely there, do you not?

Mr. BODFISH. No; but your State of Texas Legislature meets and determines what is the conscionable rate for the hire of money in the State of Texas. These are things which are supposed to prevent the exploitation of borrowers. Why in the world should Washington reach out and tell every bank and every insurance company and every building and loan association, "You can only lend at such and such a rate?"

Mr. PATMAN. Because I really think it is the duty of the Congress to have something to say about interest rates, in view of the fact that it is a constitutional duty of the Congress to issue money and regulate the value of money; that in the exercise of that power, I think it is perfectly proper that it exercise some control of interest rates.

Mr. BODFISH. Well, you have got a lot of credit unions, and a lot of insurance companies, and a lot of banks, and I do not think it is a good policy to regulate them all from Washington.

Mr. PATMAN. I think your building and loan should be allowed to make a profit and I think it should be encouraged, rather than discouraged.

The CHAIRMAN. The National Banking Act regulates interest rates to this extent: A national bank will charge a rate fixed by the statute of the State in which the bank is engaged.

Mr. BODFISH. We are subject to those same regulations.

Mr. Gore. Mr. CHAIRMAN, I want to address one brief interrogation to Mr. Bodfish.

Mr. Bodfish, you made the statement, which I wish you would clear up, for me, that the premium charged to your institution by the Federal Deposit Insurance Corporation was about three times what they charged to a bank. I realize that is extraneous to this particular bill, but it has been my understanding that the charge was one-eighth of 1 percent.

Mr. BODFISH. That is right, but we are subject to additional assessment at all times. In other words, ours is a contract proposition. We are liable not only for one-eighth we pay each year, but an additional charge at any time they call for it.

Mr. GORE. That liability is not really collected, though, in the main, is it?

Mr. BODFISH. No; but if it is made, we have to provide for it out of earnings and be ready to pay it to them, if they ask us for it.

Mr. GORE. It may be collected at some future time?

Mr. BODFISH. The banks are subject to any assessment or further liability, at all.

Mr. PATMAN. The banks pay on all of their deposits.

Mr. BODFISH. So do we, plus our creditor liabilities.

Mr. PATMAN. Yes, that is true. Your deposits are $5,000, or under, most of them?

Mr. BODFISH. Most of them, but we pay on them all.

The CHAIRMAN. Mr. Bodfish. Off the record.

(Here followed discussion off the record.)

Mr. BODFISH. I thank you for your indulgence, Mr. Chairman.

(Mr. Bodfish submitted for the record a printed statement summarizing the position of the United States Building and Loan League, which included tables showing the number, membership, assets and distribution of savings, building and loan associations, and cooperative banks, and the volume of new mortgage loans made by all savings and loan associations in 1937 and 1938. Another table was submitted showing the mortgages accepted for insurance (not premium-paying) by the F. H. A. by States from the beginning of F. H. A. operations in 1934 through December 31, 1938. He also requested that a memorandum regarding the distribution of H. O. L. C. funds to savings and loan associations, which had been prepared in answer to an inquiry of Congressman Patman, be included in the record.)

STATEMENT TO THE HOUSE BANKING AND CURRENCY COMMITTEE RE H. R. 3232 (CONGRESSMAN STEAGALL), AND THE SENATE BANKING AND CURRENCY COMMITTEE RE S. 1097 (SENATOR BANKHEAD)

PRESENTED ON BEHALF OF THE UNITED STATES BUILDING AND LOAN LEAGUE, MORTON BODFISH, EXECUTIVE VICE PRESIDENT, CHICAGO, ILL.

On behalf of the building, savings, and loan associations of the United States, we wish to record our opposition to sections 2 and 3 of H. R. 3232 and S. 1097, which propose to amend title II of the National Housing Act.

These associations loaned approximately $900,000,000 on home mortgages in 1937 and $800,000,000 in 1938.[1] Admittedly, about 10 percent of this volume has been made on the Federal Housing Administration plan. Much of this 10 percent has been done reluctantly and has been forced by the extensive use of Government funds (drawn from Reconstruction Finance Corporation) to promote the Federal Housing Administration plan and by the 80 and 90 percent loans which borrowers could secure by that means. Savings and loan associations have successfully competed with both the 9.7 percent interest charges on Federal Housing Administration title I loans and the 5½ percent cost to the borrower of title II loans.

Our basic objection to section 2 of H. R. 3232 and S. 1097 is that our thousands of community institutions are being hampered and injured in their activities by foreign lenders and direct Government purchases of Federal Housing Administration insured mortgages. If it is desirable to encourage and strengthen private businesses in individual communities, the activities of the Federal Housing Administration in insuring mortgages on existing property should be terminated on July 1, as now provided in the statute. We raise no question regarding the insurance of mortgages for new construction, because we feel it is better to assist and subsidize employment than to provide relief for unemployment. Promotional subsidies and ultimate losses on the part of the Government are possibly justified in creating new housing, but cannot be justified by activities which merely raid the portfolios of existing private institutions and use Government credit to endorse existing private debts.

That these associations operate in every urban community of the United States is well known to every Member of Congress. It is also well known that they encourage the development of a program of thrift, as well as a sound plan for the promotion of home ownership. It is a serious question for the Government to encourage the raiding of their portfolios and promote activities which injure them, with little compensating public benefit. These institutions are local, private community enterprises, organized and operated by the people in their respective communities to promote thrift and home ownership. They lend substantially all of the savings invested in them by some 6,000,000 people on home mortgages, upon a plan which has been considered fair and favorable to the borrower and which has been adopted by the Federal Housing Administration.

Attached are two tables, the first showing the number, assets, membership and distribution of savings and loan associations, and the second reproducing the official 1937–38 loan-volume statistics of these associations.

[1] See official Government figures, Federal Home Loan Bank Review for February 1939, p. 159.

The wisdom or necessity for the employment of an additional $3,000,000,000 of Government credit at this time to endorse the notes of individual debtors is highly debatable and we believe the proposal should be given the most serious scrutiny by the Congress. After more than 4 years of operation of title II, the Federal Housing Administration has insured, and is committed to insure, mortgages totaling $1,650,000,000, of which approximately one-half was insurance of existing mortgages and therefore did not promote employment or new housing.[2] It mainly encouraged and facilitated a brokerage system of selling mortgages to foreign lenders and to the Government in competition with local private savings institutions. The present revolving authorization, of which a billion and one-third remains, plus repayments, should be quite adequate to continue Federal Housing Administration activities in the new construction field. A further authorization to enable them to continue the refinancing of existing debts we believe to be an unnecessary use of Government credit.

Section 2, in rewriting section 203 (a) of the present National Housing Act, proposes that it will be the permanent policy of the Government to insure mortgages on existing construction. The present act reads, "After July 1, 1939, no mortgages shall be insured except mortgages approved prior to construction." The new language proposes to eliminate entirely this restriction.

ARGUMENTS AGAINST SECTION 2 AND FOR RETENTION OF PRESENT LANGUAGE

1. Increasing the authorization of amount which may be insured from $3,000,000,000 to $6,000,000,000 doubles the authorized liability or obligation of the Government on these private debts. The Government guaranty or endorsement runs solely to the benefit of private financial institutions, principally commercial banks and trust companies.

2. The President of the United States, in his message to Congress on November 29, 1937, suggested that the Government cease endorsing or guaranteeing mortgages on existing construction in the following language: "In connection with these changes, I would suggest that the Congress eventually limit the insurance of mortgages to housing on which the application for mortgage insurance is approved prior to the beginning of construction."

Federal Housing Administration Administrator, Stewart McDonald, testifying before the House Banking and Currency Committee, November 30, 1937, further said, as follows: "We desire to eliminate that (old financing). After July 1, 1939, Federal Housing Administration will drop out of existing construction, except houses which it has previously insured and of which it may be in possession or have to accept after foreclosure * * *."

Making the insurance of refinancing loans a matter of permanent policy is thus contrary to the stated intention of the President and of the Federal Housing Administration itself the last time it requested further aid from Congress.

3. The Government may be justified in assuming substantial risks in connection with mortgages on new construction because stimulating new construction increases employment in the building trades and in the building material industries. There is no such compensating advantage in the case of other loans. Insuring these loans merely provides a device for what is virtually direct Government lending through the Reconstruction Finance Mortgage Company or the Federal National Mortgage Association operated by the Reconstruction Finance Corporation. It further encourages the holding of mortgages on homes not by local institutions designed to foster home ownership but rather by distant investors largely in the eastern capital markets who have no interest in working out community home-ownership problems in the event of another financial crisis. It encourages foreclosure by arbitrary rules in contrast to the ability of a local institution to help the home owner in distress work out his problems.

[2] For figures on insurance operations as of December 31, 1938, see vol. III, No. 8, p. 17, February 1939 Portfolio, published by the Federal Housing Administration. In fact, only a billion and one-third of the present $3,000,000,000 authorization has been used, because these figures indicate only $1,363,000,000 of premium-paying mortgages and $281,000,000 of outstanding commitments, a portion of which may become premium-paying mortgages, and thus increase the total of the authorization used, and a portion of which may expire.

The present authorized $3,000,000,000 would be adequate, at least for a long period of time, if Federal Housing Administration operations were confined to new construction. Continuing these refinancing operations at a time when ample credit is available for them in every community, is the only reason for increasing the liability of the Government to $6,000,000,000 with its attendant possible loss.

4. The theory of the Federal Housing Administration was to encourage private capital and avoid Government outlays or direct Government loans. A substantial portion of the loans insured by the Federal Housing Administration are being purchased outright by the Reconstruction Finance Corporation and by the Federal National Mortgage Association operated by it. This amounts to direct Government lending, in competition with existing institutions.

It is further unsound because mortgages are being made and sold to the Government which prudent and experienced private lenders do not consider safe risks for savings funds nor sound transactions for the borrowers. The whole real estate field is being endangered with the conditions which brought on the great real estate crash in the late twenties, namely, excessive loans, too small equities, and accompanying policies and practices which inevitably multiply the difficulties of home owners and others in a future depression.

Section 3 adds the words "or assigned" so that mortgages may be originated by brokers or others not approved mortgagors and may be insured upon assignment to an approved mortgagee. This renders the field wide open to the individual, real estate man, or small operator who cannot qualify.

ARGUMENTS AGAINST SECTION 3

One of two theories must be chosen by those responsible for home-financing policies in the United States. Are we to encourage and develop community institutions, such as savings banks, savings, building and loan associations, and the like, or shall the mortgages be made by individuals, builders or developers, regardless of their financial strength and responsibility, and sold to the Government or foreign financial concerns? The system of community institutions, reinvesting community savings and capital in the community, stood the test best in the recent depression, and is the most logical and most American, and least paternalistic policy and procedure. Some of our people think that it is a serious matter to open up the making of these loans to an unlimited group of individuals, firms or dealers who do not have adequate capital or the responsibility of supervised financial institutions.

Section 3 throws this principle aside and eliminates the concept of community and institutional responsibility by encouraging a mortgage-brokerage or buying-and-selling system in the home-financing activities of the Nation.

Section 5 is a combination section with section 3, which protects the buyer of insured mortgages from any fraud or misrepresentation practiced upon the home owner or borrower in order to expedite the trafficking in mortgage loans. This incontestability provision protects only the approved mortgagee, not the Government nor the mortgagor.

Section 4 by dropping out the words, "until July 1, 1939," authorizes the indefinite continuation of the 25-year term loans.

Many do not believe that 25-year amortization is in the interest of either the borrower or the lender and would prefer to see the amortization limit 20 years. Even this length of amortization should be confined to the more permanent and durable construction.

There are no objections to other items in the bill, from the point of view of building, savings, and loan associations.

The United States Building and Loan League represents over 4,000 individual institutions and 47 affiliated States organizations and includes in its membership over 80 percent of the assets of the community-thrift and home-financing institutions of the savings and loan type.

Number, membership, assets, and distribution of savings, building and loan associations, and cooperative banks

States	Number of associations	Number of members	Amount of assets
Alabama	38	13,370	$12,669,545
Arizona	3	1,331	1,928,721
Arkansas	45	9,593	12,758,929
California	193	254,584	292,961,489
Colorado	61	31,505	28,794,732
Connecticut	52	35,329	31,054,272
Delaware	43	14,900	12,414,227
District of Columbia	28	129,780	120,614,000
Florida	94	22,148	35,226,829
Georgia	66	21,149	20,419,091
Idaho	13	8,308	6,948,295
Illinois	762	342,007	339,936,726
Indiana	274	157,468	155,581,310
Iowa	100	45,086	40,913,617
Kansas	149	116,012	75,712,686
Kentucky	175	112,363	105,016,864
Louisiana	82	104,405	89,084,412
Maine	42	24,461	23,133,403
Maryland	[1] 903	213,588	158,831,441
Massachusetts	215	400,009	476,192,315
Michigan	82	95,615	113,569,586
Minnesota	78	48,192	50,640,864
Mississippi	46	7,023	8,306,487
Missouri	221	178,063	127,893,004
Montana	23	19,211	11,163,518
Nebraska	92	87,401	71,277,197
Nevada	5	1,140	952,464
New Hampshire	30	17,551	16,948,198
New Jersey	1,423	585,395	792,361,056
New Mexico	21	4,228	4,796,318
New York	384	510,048	378,500,589
North Carolina	183	105,384	75,814,904
North Dakota	23	9,747	10,395,601
Ohio	724	1,306,800	810,598,232
Oklahoma	73	38,626	59,070,690
Oregon	37	27,042	25,011,766
Pennsylvania	2,157	527,617	596,705,236
Rhode Island	9	49,651	36,108,140
South Carolina	74	17,426	19,300,348
South Dakota	19	6,805	4,579,686
Tennessee	45	15,179	19,586,758
Texas	176	59,475	83,716,153
Utah	21	26,430	26,496,754
Vermont	14	6,408	5,549,281
Virginia	98	46,117	44,258,237
Washington	70	142,222	52,742,091
West Virginia	69	29,541	26,507,001
Wisconsin	202	179,997	187,134,735
Wyoming	14	4,683	5,381,184
Hawaii	10	22,550	6,003,453
Alaska	1	56	95,975
Total	9,762	6,233,019	5,711,658,410

[1] Estimated.

Source: Seventy-sixth Annual Report of the Comptroller of the Currency, year ended Oct. 31, 1938, p. 167.

Estimated volume of new loans by all savings and loan asociations in 1937 and 1938, classified according to purpose and type of association

[Amounts are shown in thousands of dollars]

Period	Purpose of loans					Total loans	Type of association		
	Mortgage loans on homes				Loans for all other purposes		Federals	State members	Non-members
	Construction	Home purchase	Refinancing	Reconditioning					
1937	$234,102	$326,629	$180,804	$62,143	$92,901	$896,579	$307,278	$379,286	$210,015
December	15,281	20,167	12,677	4,175	7,796	60,096	20,038	24,522	15,536
1938	220,458	265,485	160,167	58,623	93,2 3	797,996	286,89	333,470	177,627
January	12,572	14,896	11,334	3,409	6,891	49,102	16,781	20,879	11,442
February	11,669	16,117	11,293	3,662	7,352	50,093	17,520	22,073	10,500
March	16,648	21,056	1 , 391	4,953	8,170	65,218	23,356	27,8 5	14,027
April	17,710	25,494	15,772	5,683	8,648	73,307	26,107	30,238	16,962
May	19,400	24,123	15,281	5,416	8,0 9	72,279	24,721	31,196	16,362
June	19,892	25,636	13,885	5,211	8,443	73,067	26,710	30,350	16,407
July	19,096	21,924	13,194	5,397	8,028	67,639	23,823	28,973	14,843
August	22,575	23,833	14,701	5,528	8,072	74,709	26,858	29,506	18,345
September	21,018	25,698	12,416	4,791	7,724	71,647	25,650	29,255	16,742
October	22,099	24,677	12,913	5,727	7,515	72,931	26,534	30,546	15,851
November	18,627	21,205	12,182	4,821	7,235	64,070	24,220	26,115	13,735
December	19,152	20,826	12,805	4,025	7,126	63,934	25,019	26,504	12,411

Source: Federal Home Loan Bank Review, February 1939.

Net mortgages accepted for insurance, by States, cumulative through Dec. 31, 1938

[Based on property location]

	New homes		Existing homes		Total	
	Number	Amount	Number	Amount	Number	Amount
Alabama	1,949	$7,756,095	1,756	$5,473,590	3,705	$13,229,685
Arizona	1,340	5,342,117	870	2,485,429	2,210	7,827,546
Arkansas	1,302	4,328,920	1,276	3,140,690	2,578	7,469,610
California	37,233	165,494,226	29,929	116,033,570	67,162	284,527,796
Colorado	1,285	5,451,074	1,803	5,204,394	3,088	10,655,468
Connecticut	1,994	10,147,735	1,117	5,098,310	3,111	15,246,045
Delaware	482	2,571,250	316	1,383,050	798	3,954,300
District of Columbia	677	4,511,700	433	3,043,250	1,110	7,554,950
Florida	6,762	28,196,999	2,221	7,733,802	8,983	35,930,801
Georgia	4,256	16,988,752	2,145	7,398,800	6,401	24,387,552
Idaho	1,026	3,569,140	713	1,917,550	1,739	5,486,690
Illinois	6,665	38,420,189	11,557	49,839,974	18,222	88,260,163
Indiana	3,920	17,639,878	8,798	27,756,813	12,718	45,396,691
Iowa	1,056	4,570,635	2,053	6,161,064	3,109	10,731,699
Kansas	2,411	9,520,295	3,357	8,381,322	5,768	17,901,617
Kentucky	1,932	9,323,219	1,635	6,759,642	3,567	16,082,861
Louisiana	1,785	6,683,825	1,032	3,677,140	2,817	10,360,965
Maine	233	870,400	860	2,360,580	1,093	3,230,980
Maryland	3,191	15,952,445	2,940	11,324,040	6,131	27,276,485
Massachusetts	1,339	7,534,460	2,356	11,099,527	3,695	18,633,987
Michigan	14,050	74,497,970	8,162	32,139,685	22,212	106,637,655
Minnesota	2,309	9,981,830	3,717	12,000,724	6,026	21,982,554
Mississippi	2,073	7,121,163	1,366	3,585,326	3,439	10,706,489
Missouri	4,184	19,546,962	5,901	22,123,535	10,085	41,670,497
Montana	575	2,353,041	627	1,872,600	1,202	4,225,641
Nebraska	677	2,917,749	1,363	4,359,670	2,040	2,277,419
Nevada	319	1,508,400	340	1,293,505	659	2,801,905
New Hampshire	138	622,950	668	2,362,501	806	2,985,451
New Jersey	8,783	47,138,883	10,101	44,666,641	18,884	91,805,524
New Mexico	772	2,766,400	324	975,775	1,096	3,742,175
New York	19,138	97,340,620	6,271	29,174,072	25,409	126,514,692
North Carolina	2,554	11,314,700	1,431	5,508,739	3,985	16,823,439
North Dakota	223	862,500	472	1,215,205	695	2,077,705

Net mortgages accepted for insurance, by States, cumulative through Dec. 31, 1938—Continued

[Based on property location]

	New homes		Existing homes		Total	
	Number	Amount	Number	Amount	Number	Amount
Ohio	6,644	$37,064,915	15,716	$61,726,129	22,360	$98,791,044
Oklahoma	3,055	12,656,830	1,886	5,881,062	4,941	18,537,892
Oregon	1,104	4,072,300	1,726	4,725,800	2,830	8,798,100
Pennsylvania	7,850	40,811,724	13,959	48,587,993	21,809	89,399,717
Rhode Island	573	2,764,130	766	3,187,290	1,339	5,951,420
South Carolina	1,537	6,000,384	746	2,667,254	2,283	8,667,638
South Dakota	337	1,240,600	779	1,777,230	1,116	3,017,830
Tennessee	3,903	14,804,515	3,172	11,108,880	7,075	25,913,395
Texas	12,394	49,059,299	3,531	11,692,128	15,925	60,751,427
Utah	1,655	6,705,120	1,843	5,641,495	3,503	12,346,615
Vermont	195	784,950	850	2,539,572	1,045	3,324,522
Virginia	3,812	18,057,233	3,141	12,613,916	6,953	30,671,149
Washington	2,767	10,578,740	5,214	14,859,125	7,981	25,437,865
West Virginia	1,591	7,633,800	1,085	4,205,860	2,677	11,839,660
Wisconsin	2,651	14,041,789	1,832	8,124,305	4,483	22,166,094
Wyoming	853	3,201,460	1,189	2,948,388	2,042	6,149,848
Alaska	94	508,200	118	368,460	212	876,660
Hawaii	571	2,331,090	218	740,180	789	3,071,270
United States total	188,219	878,163,601	175,687	650,945,582	363,906	1,529,109,183

Division of Economics and Statistics, Operating Statistics Section.

DISTRIBUTION OF HOME OWNERS' LOAN CORPORATION BONDS TO MORTGAGEE INSTITUTIONS

Approximately $3,100,000,000 was disbursed by the Home Owners' Loan Corporation to its original borrowers in the course of its refinancing operations. Of this amount approximately 90 percent was distributed to the original mortgagees. Of the remaining 10 percent, approximately 7 percent went to pay taxes, 2 percent for reconditioning, and 1 percent for insurance, appraisals, titles, etc.

Of the $2,750,000,000 loan proceeds disbursed to original mortgagess, 19 percent, or a total of $525,000,000 went to commercial banks, 15 percent or $410,000,000 to savings banks, 28 percent or $770,000,000 to building and loan associations, 21 percent or $575,000,000 to individuals, 7 percent or $195,000,000 to finance and mortgage companies, 6 percent or $165,000,000 to insurance companies, and 4 percent to estates, individual trusts, and others, or approximately $110,000,000.

It is significant that building and loan associations which are the largest institutional holders of home mortgages, in proportion to their holdings, received less in Home Owners' Loan Corporation bonds than commercial banks. At the end of 1932, the year before Home Owners' Loan Corporation began its operations, commercial banks held an estimated $1,995,000,000 of home mortgages and later refinanced through the Home Owners' Loan Corporation $525,000,000 or over 26 percent. Savings and loan associations which held $5,756,000,000 of home mortgages in 1932 refinanced through the Home Owners' Loan Corporation $770,000,000 or 13 percent of their holdings. Individuals and miscellaneous lenders with holdings of $7,000,000,000 refinanced $880,000,000 or 13 percent. Mutual savings banks with holdings of $3,375,000,000 refinanced $410,000,000 or 12 percent. Life-insurance companies with loans of $1,835,000,000 refinanced $165,000,000 or 9 percent. Since the $2,750,000,000 of Home Owners' Loan Corporation disbursements to mortgagees represented almost 14 percent of the $19,961,000,000 of home-mortgage debt at the end of 1932, it is clear that building and loan associations, which refinanced 13 percent of their holdings, on the average did not receive any greater benefits than other lenders.

The CHAIRMAN. Without objection, the committee will adjourn to meet tomorrow at 10:30.

(Thereupon the committee adjourned until Thursday, March 9, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

THURSDAY, MARCH 9, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to the adjournment previously taken, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Gore, Mills, Martin, Folger, Hull, Wolcott, Gifford, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner.

The CHAIRMAN. We have Mr. Morton Bodfish with us this morning. I believe Mr. Gore had a question pending when we adjourned yesterday, and he would like to resume.

STATEMENT OF MORTON H. BODFISH—Resumed

Mr. GORE. Mr. Bodfish, from your testimony yesterday, in which you related that you were liable for three times the Federal Deposit Insurance premiums; that is, your organization, which you represent, was liable for three times the amount charged the banks. In actual record of performance, am I not correct in saying that only one and one-half times has been paid?

Mr. BODFISH. We have paid one and one-half times and we are liable for an additional one and one-half times on an assessment basis.

Mr. GORE. This liability is not retroactive, is it?

Mr. BODFISH. No; I think it merely can be called for, on an assessment basis, from year to year. I do not think it is retroactive.

Mr. GORE. How does the record of losses compare with that of the banks?

Mr. BODFISH. I do not have the exact figures before me. There have been losses in the Federal Savings and Loan Insurance operation of about 3 or 4 percent of their income from premiums, about $100,000, in fact. I do not know what the bank loss figure was for 1938, but I think it was something around $8,000,000 or $9,000,000, and I do not know what percentage of premium it is, but my impression is that savings and loan losses have been considerably less than the bank losses, relatively speaking. We have had to pay no losses of consequence in the insurance in the savings and loan associations so far, and you have had some losses in the bank picture, although I do not think they are alarming, so far as I know.

Mr. GORE. Do you think it would be feasible to place the same premium upon your organization as is required of the banks?

Mr. BODFISH. I think there is really no risk involved in the insuring of accounts in the saving and loan associations that is any greater,

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if as great, as the insuring of deposits in banks, where you have all the demand liability, the deposits, and the like.

Mr. GORE. Then from that statement, you do not think the liability has any greater degree of possibility of collection, do you?

Mr. BODFISH. I think the reserves that are being accumulated will be quite adequate, in any period, to cover any possible losses that may come out of the failure of such institutions.

Mr. GORE. Mr. Bodfish, you have just stated that, in your opinion, there was no justification for the difference in the charge to the banks and your organization. If there is not a need, the other one-eighth will not be assessed.

Mr. BODFISH. We hope not, yes; that is right.

Mr. GORE. Well, do you feel that it will be needed?

Mr. BODFISH. I think it would be, in a crisis. That is why we have it in there. I think we have a safer set-up than the bank-deposit insurance because the demands will be made in a crisis period, and our people feel it is perfectly sound to have a modest assessment feature in connection with insurance. We do not think it will be called on in any steady or stable period, and we hope that we will have steady business conditions until the accumulated reserves are such that, even in a depression, it would not be necessary to call for any additional assessment.

Mr. GORE. You mean to say that you think it would be required in a period of depression?

Mr. BODFISH. I think it is possible. After all, when you have a deflationary period and a problem such as we had in 1932 in the commercial banking structure and in the mortgage structure, I do not think any of us know whether the bank F. D. I. C., or savings and loan premiums are going to be adequate, or whether we can accumulate enough reserves to handle that sort of situation. I think, however, our experience is ahead of us and there is little experience on which we can base our predictions. Our premiums are running in excess of what the losses have been in the past building and loan associations, assuming carefully selected supervised institutions and all present solvency plus the care and policies that exist in publicly supervised institutions.

Mr. GORE. Then what would your position be with regard to the proposal, which I understand is entirely probable, to make the premiums charged to building-and-loan associations comparable to that charged the banks?

Mr. BODFISH. I would be strongly in favor of it. The Government should protect the savings of the people without discrimination. The Government established the Federal Deposit Insurance Corporation under the leadership of this committee and it has done a most constructive public service. I see no reason why they should charge one institution more for protection than they charge another, when the purposes are the same, and when I do not think there is a great deal of difference in the risk. So I would be strongly for a rate for the insurance of accounts in savings-and-loan associations identical with the rate charged the commercial banks; and in that connection, our people have no disposition to urge, when that question comes before you, the elimination of the assessment feature. We are perfectly willing to see it stay in our insurance set-up, because we think it is an additional safeguard.

Mr. GORE. I have been somewhat inclined to that manner of thinking, Mr. Bodfish, and I am hoping your statements that there are possibilities of calling on that reserve will not cause me to change my mind.

Mr. BODFISH. I do not mean to alarm you, but I always try to be very candid with this committee, and I think we are building a large enough reserve, but I do not think any of us can know what the demands will be on the Federal Deposit Insurance fund; but I know, if it is adequate, ours is adequate for us, more than adequate.

Mr. GORE. I think that is all I desire to ask and I shall desist, Mr. Chairman.

Mr. CRAWFORD. Mr. Bodfish, you do not mean to say that you favor a change in the existing laws, which would make your rate the same as that of the banks, as they may be at some future date, do you?

Mr. BODFISH. No; what I meant to say is, that if the banks are now charged one-twelfth and we are charged one-eighth, and we are liable for an additional assessment of one-eighth, we think the one-eighth should be made one-twelfth.

Mr. CRAWFORD. You do not think you should be penalized?

Mr. BODFISH. That is right.

Mr. CRAWFORD. But you do not mean to say you will favor a change of the law to make you pay the same rate; that you ought to have the same as the banks, at the present time?

Mr. BODFISH. Yes; I think so.

Mr. CRAWFORD. I think that is a frank answer.

Mr. BODFISH. I mean the same rate, at the present time.

Mr. CRAWFORD. Suppose the bank rate advances 100 percent?

Mr. BODFISH. Then we will have to consider it at that time, and we will then know what our position is and what our reserves are.

The CHAIRMAN. Of course, Mr. Bodfish, you are aware of the fact that the Federal Deposit Insurance Corporation has a capital of $420,000,000 and a borrowing capacity of $1,000,000,000. In 1938, the Federal Deposit Insurance Corporation added to its surplus about 36 millions of dollars, or nearly the entire amount collected as assessments from insured banks.

Mr. BODFISH. That is right. In our little operations, Mr. Chairman—and I do not want to invite undue comparison, because I think the history of this period is over—I think the Federal Deposit Insurance Corporation is going down as the outstanding achievement of the Congress to restore confidence in out banking system—but in our picture, we had about $14,500,000 net, and we are insuring about $2,000,000,000 of liabilities on investments; whereas, the Federal Deposit Insurance Corporation is insuring something like $30,000,000,000.

Mr. PATMAN. Mr. Bodfish, do you mean to say that the Federal Deposit Insurance Corporation is insuring $25,000,000,000?

Mr. BODFISH. Yes; the bank savings and commercial deposits amount to about $57,000,000,000, and the insured bank deposits are something like $25,000,000,000, which is in accounts of $5,000 or less.

Mr. PATMAN. Are you sure of that?

Mr. BODFISH. I think so.

Mr. CRAWFORD. About 98 percent of the deposits are insured.

Mr. PATMAN. What is the number of depositors?

The CHAIRMAN. They are below one-half.

Mr. BODFISH. I thought it was about one-half.

Mr. FORD. Forty-two percent was the last figure I saw.

The CHAIRMAN. Insured?

Mr. FORD. Yes.

Mr. PATMAN. Mr. Chairman, I have two or three questions I would like to ask Mr. Bodfish.

I notice from a memorandum, apparently prepared by the Federal Housing Administration that shows that, at December 31, 1938, the Home Owners' Loan Corporation had subscribed to shares of Federal and State loan associations, which were members of the Home Loan Bank System, in the amount $215,541,000, which subscriptions had been paid for; that the United States Treasury had subscribed and paid for stock in the Federal savings and loan associations amounting to $50,000,000, making a total of $265,000,000 of Government funds or Government guaranteed funds invested in building and loan associations as of that date. Is that statement substantially correct?

Mr. BODFISH. I think it is substantially correct.

Mr. PATMAN. I notice from the same memorandum that the Federal home-loan banks had loaned to member building and loan associations, on pledged mortgages, $189,842,000, and that $124,000,000 of the Federal home-loan banks was bought and paid for by the Treasury of the United States. Is that substantially correct, or is it entirely correct?

Mr. BODFISH. I think it is substantially correct.

Mr. PATMAN. In other words, you know it is correct, do you not?

Mr. BODFISH. I think it is an appropriate statement, when you connect with the fact that the member institutions have bought some $40,000,000 of stock; and when you talk about the purchase of shares in building and loan associations, I think we should indicate that, back in the emergency period, the Reconstruction Finance Corporation bought about $2,000,000,000 of preferred stock in banks.

Mr. PATMAN. That figure is correct, is it not—$124,000,000?

Mr. BODFISH. Yes, that is approximately correct.

Mr. PATMAN. How much of that stock is individually owned?

Mr. BODFISH. About $40,000,000.

Mr. PATMAN. $40,000,000?

Mr. BODFISH. That is right, owned by the institutions.

Mr. PATMAN. The total amount of stock was $147,000,000?

Mr. BODFISH. The Congress authorized, in 1932, a set-up of 12 home-loan banks, which were to be similar in purpose, in their dealings with these community thrift and home-financing institutions, as are the Federal Reserve banks, which deal with the commercial banks of the country, and the original capital was authorized at $125,000,000, to be furnished by the Government; and then the individual institutions who joined the System, have the right to borrow from it on the pledge of their mortgages, and they buy stock in it. They have so far bought, you know, approximately $40,000,000 of stock.

Mr. PATMAN. And the Government owns $124,000,000?

Mr. BODFISH. That is correct.

Mr. PATMAN. I notice in the same statement that the Home Owners' Loan Corporation owns $100,000,000 of all of the stock of the Federal Savings and Loan Insurance Corporation. That is correct, is it not?

Mr. BODFISH. Yes; unless that is a part of the previous figure that you developed regarding the shares purchased in the building and loan associations.

Mr. PATMAN. The share purchases?

Mr. BODFISH. The shares are in that figure of about $200,000,000.

Mr. PATMAN. $265,000,000?

Mr. BODFISH. The $100,000,000 is a part of the $265,000,000.

Mr. PATMAN. The sole function of the Federal Savings and Loan Insurance Corporation is to insure the shares of building and loan associations up to $5,000?

Mr. BODFISH. That is correct.

Mr. PATMAN. The total of these items that I have just read to you is $489,000,000 of Government funds which are invested in, or stand as security for, the shares of the building and loan associations, or have been advanced to such associations by the Federal home-loan banks, which, in turn, are almost entirely owned by the Government. Is that correct?

Mr. BODFISH. I would not say they are almost entirely owned by the Government. The Government owns the majority interest, and there is a provision in the statute for the retirement of the Government's stock interest, whenever there is a sufficient increase in stockholdings on the part of private institutions.

Mr. PATMAN. I also notice from this statement that the Home Loan Bank Board refinanced assessed mortgages held by building and loan associations in 1933 in an amount in excess of $875,000,000?

Mr. BODFISH. I think the correct figure is $770,000,000.

Mr. PATMAN. Well, now, would you consider these investments of the Government in building and loan associations, in one way or another are, in effect, subsidies?

Mr. BODFISH. No, not necessarily. I think that, if we wanted to discuss, as we did yesterday, the emergency period, starting with the bank crisis of 1932 and the steps that the Government took to stabilize and develop the financial structure, including a couple of billions of preferred stock in the banks and the F. C. I. C. and the R. F. C. and the whole group of activities, and I think that that was perfectly proper action on the part of the Government; and the significant thing about this whole picture, Mr. Congressman, is the fact that most of these activities provide for repayment of the whole thing to the Government, and the process is being carried out at the present time, and I do not see where you can call that a subsidy.

Mr. PATMAN. You understand, I am not condemning subsidies.

Mr. BODFISH. But you are trying to get me to admit they are subsidies, and because some action took place in 1932 for the banks and insurance companies of this country, that, therefore, we are not coming into court with clean hands, in suggesting a determination of a public policy.

Mr. PATMAN. You stand on the same policy that the others do, and you are on the same footing, so far as subsidies are concerned. But it occures to me that you should admit that they are, in effect, subsidies, which not only affect your own organization, but the banks and insurance companies.

Mr. BODFISH. I think a subsidy is something that they give you that you do not pay for. But I think something that you borrow

and pay your way for, pay every dollar of it, is something different. We pay earnings on every dollar of that money invested in building and loan shares, and it is being retired today and no more is being issued, just the same as the preferred stock in banks. The rate averages in excess of 3 percent.

Mr. PATMAN. It is a subsidy to have the use of Government credit, that has been given to a certain class and group, and I defend the policy, but you are granted a subsidy by being granted the use of funds, are you not?

Mr. BODFISH. I can help you out a little bit on that. There is $112,000,000 loaned to the building and loan associations of this country by the Reconstruction Finance Corporation, and every dollar of it is paid back, today, with the exception of about $1,000,000, which was loaned recently to closed institutions; and I do not consider that a subsidy.

Mr. PATMAN. I am saying that all of these are, in effect, subsidies in the granting of funds and credit, and I think there should be a frank admission from those who receive the benefit.

Mr. BODFISH. I will not admit it is a subsidy, and I will not condemn the action of our Government in carrying out its policies and responsibilities.

Mr. FORD. Mr. Chairman, I do not like the use of this word "subsidy," in connection with loans. If I go into a bank and borrow $1,000, am I being subsidized?

Mr. PATMAN. No; that is not a parallel case, at all, sir. Here is what I am talking about: This Government of ours has seen fit to extend the use of its credit to certain groups and classes, which I think is a great thing for the country, but at the same time, the use of public funds may be a subsidy, as well as the granting of public funds.

Mr. FORD. But a subsidy is something that is given, that is not paid back, as Mr. Bodfish has said.

Mr. PATMAN. Well, you can have your own definition and I can have mine; and Mr. Bodfish, if he wants to, may have his.

Mr. FORD. Do you mean that any depositor in any bank, or any stockholder in any building and loan association, is subsidized, to the extent that we subsidize an institution as you call it?

Mr. PATMAN. Well, I do not know whether I would go that far, or not, Mr. Ford.

Mr. FORD. That is the logical carrying out of the word "subsidy," if you are going to put it on that basis.

Mr. PATMAN. Maybe I disagree with you.

Mr. FORD. Maybe you are right, but I think we ought to get in the record a definition of the word "subsidy," in that connection.

Mr. PATMAN. I think I have explained it fully by mentioning the items, and anyone can make up his own mind whether he considers it a subsidy, or not.

Now, does the Home Loan Bank Act prescribe any maximum interest rate that may be charged to home owners by members of the home-loan bank system?

Mr. BODFISH. Mr. Congressman, we discussed and explored that at some length yesterday. However, I am perfectly willing to keep answering questions.

Mr. PATMAN. I want that particular question answered.

Mr. BODFISH. As a matter of courtesy, there are a number of other members of the committee, and I do not want to have anything to say about procedure, but what does that have to do with the question of the credit of the United States Government being used to endorse individual mortgage debts that are now out in the community institutions—to have them switched to some other institution or sold to the Government? That is the only thing I am here to talk about.

Mr. PATMAN. At the same time, you are subject to the will of the committee.

Mr. BODFISH. That is right. I bow humbly to the wishes of the committee.

Mr. PATMAN. And if I want to ask you a question, I am privileged to do it.

Mr. BODFISH. All right.

Mr. PATMAN. What is your answer to the question? I presume. from what you said yesterday, your answer is "no"?

Mr. BODFISH. One element of control that is present there is, that the Federal Home Loan Bank Board is charged, in the statute, not to admit an institution to membership in that system which—I do not recall the exact language, but not to admit an institution to membership which charges interest rates beyond the State law. That does not appear in the Federal Reserve Act.

Mr. PATMAN. That has nothing to do with the Home Loan Act?

Mr. BODFISH. Oh, yes; that is a part of the Federal Home Loan Bank Act. It says to that Board, "You may admit insurance companies, savings and loan associations, and the like, but you shall not admit any that charges rates in excess of the legal or contract rates authorized under State law." That was an amendment that Mr. La Guardia, when he was a Representative, presented on the floor of the House, as I think you gentlemen will remember.

Mr. PATMAN. In other words, it is restricted only by the State act?

Mr. BODFISH. Restricted essentially by the State legislation.

Mr. PATMAN. Does the Home Loan Bank Board exercise any control over the manner or methods——

The CHAIRMAN. Will you yield for Mr. Luce to ask a question?

Mr. PATMAN. Just a moment, please. Let me finish this sentence. Does the Home Loan Bank Board exercise any control over the manner or methods of appraising properties on which member association make mortgage loans?

Mr. BODFISH. Exercise control, you say?

Mr. PATMAN. Yes.

Mr. BODFISH. I would not say that they control the manners and methods any more than the Federal Reserve Bank tells the little bank down here in any town you want to mention just how they are going to lend to a borrower who walks into their place of business and asks for a loan.

Mr. PATMAN. In other words, then the Board sends its examiner out to examine a building and loan association, this examiner does not go out and examine the properties, but he only examines the books, does he not?

Mr. BODFISH. Sometimes they examine the properties, when there are delinquent loans. When the loans are current and there is no problem of solvency in the institution, he would not go out and examine the properties.

Mr. PATMAN. The point, Mr. Luce, was brought up yesterday, when you were not here, as to whether or not this one-half of 1 percent was sufficient as insurance premiums on these mortgages. Now, I endeavored to make the point, yesterday, that if one-eighth of 1 percent is sufficient on building and loan associations' investments, when the Government really insures the investments without having any control over making these loans, without any control, as Mr. Bodfish says, over the appraisals, have nothing to do with it at all—and if one-eighth of 1 percent is sufficient, certainly one-half of 1 percent is sufficient for the Federal Housing Administration.

Now, one reason for saying that was this: That it is like insuring a crate of eggs. The Federal Housing Administration picks out its eggs, that is the ones insured for one-half of 1 percent; whereas, the Home Loan Bank takes the whole crate and insures it, without even lifting the lid to look at them.

So I think that, if one-eighth of 1 percent is sufficient in one case, one-half of 1 percent should be sufficient in the other case.

Mr. LUCE. I thank you, Mr. Patman.

Mr. PATMAN. That is the point I was driving at.

Mr. BODFISH. I might say, Mr. Chairman, in respect to that probability, the best thing to do is to look at the record. The insurance of building and loan accounts in title IV of the original Housing Act was before this committee and was acted on by the Congress. So far, about $2,000,000,000 in shares of institutions have been insured by the Federal Saving and Loan Insurance Corporation, without Government assistance except the original funded capital that was put into it, just the same as the capital was put into the Federal Deposit Insurance Corporation. They have taken all of their expenses—and their expenses have run about 5 percent of their income—and they have accumulated about $15,000,000, without any money out of the public treasury. This is a question I would rather not discuss, but if you force me to discuss it, the F. H. A. have not been in the black 1 day. They have not taken in enough premiums to cover their expenses, and when you gentlemen interrogate them about it—and I did not want to get into this, because I think it is justified to spend some public money on property improvement and new housing constructions—they talk about hoping to have income sufficient without putting anything aside for a reserve in the year that is just ahead. It is a very different thing to insure shares in building and loan associations, or deposits in banks, when there is a surplus there, and when there is management and local responsibility and public supervision. When the insured institution has a loss, it is taken out of the reserves of that institution, unless there have been so many losses that they use up their resources. Unless that happens, the United States Government never hears about it.

You insure an individual mortgage at 80 or 90 percent, and every time there is a loss, the property is sent to the United States Government and in its place is issued a direct obligation of the Government. You are never going to hear from most of these institutions, because they will take their losses out of their own earnings and reserves as they go along.

Mr. PATMAN. In regard to the present Federal Deposit Insurance Corporation, do you not believe the Government has been as good to the building and loan associations as it has been to the banks?

Now, in creating the reserve for the insurance of bank deposits, the Government turned over $150,000,000, and then caused the Federal Reserve banks to turn over funds, which, really, as a matter of right and justice, belong to this Government in the amount of $147,000,000 to create the original fund, and that the banks, up until 2 or 3 years ago, I know, had never paid in more than $39,000,000. In other words, out of the $339,000,000 paid in to create that fund to insure deposits in the banks, the banks only paid in $39,000,000?

The CHAIRMAN. Just a minute, please.

Mr. PATMAN. That is all I want to ask him.

The CHAIRMAN. Of course, Mr. Patman, we do not want to enter into that discussion here.

Mr. PATMAN. What part of it, Mr. Chairman, do you dissent from?

The CHAIRMAN. I do not think you should enter into that discussion here. I just want to call attention to the fact, however, that the $147,000,000 paid in by the Treasury to the capital structure was accumulated from the earnings of the Federal Reserve banks that were privately owned by the banking institutions of the country. That is where the money came from.

Excuse me for taking the time to say that.

Mr. PATMAN. That does not tell the whole story.

The CHAIRMAN. I do not want to tell it all. I am sorry I told that much. It is taking unnecessary time in this connection.

Mr. PATMAN. Since you do not want the whole story to go in, I am through, but I insist my statement is correct.

Mr. BROWN. I understand they loan their own money to distressed home owners?

Mr. BODFISH. The H. O. L. C.? That is right.

Mr. BROWN. Now, the distinction would be that, in the Federal Housing Administration the loan is really just made to the applicants and is furnished by local lending institutions. The loans, under title II, as to existing loans, is that the F. H. A. aids local institutions in loaning their money.

Mr. BODFISH. You mean they help the local banks?

Mr. BROWN. The local banks and other lending institutions. They aid them in loaning the money to the distressed home owners, and not their own money but the money of the local institutions?

Mr. BODFISH. That is correct to a certain extent. It is the money of the local institutions; it is the money in the banks; it is the money in insurance companies; it is the money in the RFC Mortgage Co. and the Federal National Mortgage Association, down here at the other end of the Avenue.

Mr. BROWN. The reason I asked that question is I do not think the new members understand the functions of the Home Owners' Loan Corporation.

Mr. BODFISH. The original theory of the Housing Act, as I understand it, was—to use the phrase used at that time—to stampede private capital into construction loans. But now we have this question of insuring existing mortgages, which we are objecting to.

Mr. BARRY. When the Federal Housing Administration insures a mortgage on an existing building, is it not true that many of those buildings have to be modernized?

Mr. BODFISH. I think that is true, whether they are insured, or not. I think every prudent lender will try to see that the property is in good shape.

Mr. BARRY. Before they actually insure it?

Mr. BODFISH. I think that is customary for the Federal Housing Administration and other types of lenders also.

Mr. BARRY. If I told you that 80 percent of those buildings had to be modernized, would you not consider that a contribution to employment and to building activity in the building-material field, and a substantial contribution?

Mr. BODFISH. Well, I would be very much surprised if modernization was involved in 80 percent of the loans on existing properties.

Mr. BARRY. I am just putting that as a hypothetical question.

Mr. BODFISH. I think it would be a very significant contribution, but I think it is a contribution that other lending institutions, who are lending money, are making at the same time, because none of us make loans without withholding a part of the proceeds, if repairs and modernization are needed.

Mr. BARRY. But if the old mortgage existing was not refinanced, the chances are that it would not be modernized?

Mr. BODFISH. We can modernize them under title I; modernize them insofar as the individual is willing to do it. I think it is an excellent thing to improve the condition of existing property. That is one of the bad things in a depression, that people do not paint or repair houses. or the home owners do not. All of our mortgages provide for further advances in order to do it, and we believe that they should be encouraged to do it. I think title I encourages them to do it.

Mr. FORD. Let us say that they could not paint them.

Mr. BODFISH. Mr. Chairman, if there are no more questions, I do not believe I have much further to urge to the committee.

The CHAIRMAN. We thank you Mr. Bodfish.

Mr. BODFISH. Our whole theory is that, as you gentlemen know the usefulness of these local institutions in your own areas, their welfare and progress is something for you gentlemen to consider. We do feel this Government insurance of existing mortgages works a serious injury to private cooperative institutions, and we urge that you consider this when you are at a policy-making decision. I want to bring one thing out in conclusion: That there are a lot of loans made by these institutions in this country, in this community and that community and the other community, that would not be made, except under the plan and activities of community institutions. There are a lot of areas where the people have credit needs which are supplied only by institutions right in the community making loans. Our loans run small, as a rule. They ran an average of about $2,200 last year, and they are often made in areas in which the Federal Housing Administration will not insure mortgages, or where there are peculiar local conditions which make them ineligible for F. H. A. or outside lenders. So we think these local institutions have a very important role to play.

Mr. BROWN. But the Federal Housing Administration makes loans in many localities where you do not.

Mr. BODFISH. It is getting so that there is practically no community where we have not an agency. We are not raising any question about the employment creation acts under title I and title II. There are just $17,500,000,000 of urban home mortgages today. These are being switched around and brokered away under Government leadership, and we do not think that such activities are necessary to the recovery of the country and to continued prosperity.

Mr. FORD. How much of that $17,000,000,000 have the building and loan associations the capital to handle?

Mr. BODFISH. You see, that $17,000,000,000, Mr. Ford, is all in existence at the present time. We have about $4,250,000,000 of it at the present time. We have about $1,000,000,000 of resources in real estate, and formerly high percentage loans, that did not turn out so well in the face of a real estate depression. The balance is held by commercial banks, insurance companies; and one of the things that we did not realize before, is the extent to which individuals hold home mortgages, today. As I recall, some years ago, in discussions before this committee, we used to think about 10 percent was held by individuals, but as the statistics have developed, it is closer to one-third.

Mr. FORD. About 32 percent.

Mr. PATMAN. You mean held by individuals?

Mr. BODFISH. Yes; held by individuals.

Mr. PATMAN. Private investors?

Mr. BODFISH. Yes, without any institutional intermediary, where the men will come into a law office or through a friend or real estate man they will arrange the mortgage with somebody, or have a little trust fund, or fiduciary fund. It is surprisingly large.

Mr. FORD. Well, now, the question I was getting at, directly and specifically, is this, Mr. Bodfish: If we deny the Federal Housing Administration the privilege of insuring existing mortgages, to what extent is the building and loan field capable of taking up the slack and doing such refinancing as will be necessary to prevent a flood of foreclosures?

Mr. BODFISH. There is no question in my mind, Mr. Ford, but what our building and loan associations, next year, will be in position to lend a billion dollars, if we can find acceptable mortgage securities. We loaned about $700,000,000 last year. We have a fair inflow of cash. Our discounts on borrowings are not near as high at the Federal home-loan banks today as they were before. I think we can handle a billion dollars of it, and if you explore the savings bank and insurance company situation, you will find that, with hundreds of millions of dollars seeking safe investment in mortgage investments, there is no question in my mind but that refinancing can be adequately taken care of, and no foreclosure or mortgage stress be developed as a result of your termination of this existing mortgage phase of the act.

Mr. FORD. What is your basis of insurance, what basis of value?

Mr. BODFISH. Sixty-six and two-thirds to seventy-five percent.

Mr. FORD. Suppose there was an existing house that was in bad repair, and suppose the man would say it was worth about $7,000 normally, and he had a $4,500 mortgage on it at a bank, and they called the loan, what would you say would be the prospect of the building and loan taking it up at a conservative or reasonable rate of interest?

Mr. BODFISH. I think if your man happened to be a good man in his community, where he has a good name, where he is a man with steady employment and a good character, I think he could very easily do it.

Mr. BROWN. I would like to know how many building and loan associations there are in my State? We have 159 counties, and I do not think there are many building and loan associations in my State.

Mr. BODFISH. I think there are about 60 or 70—63 in the State of Georgia, and 43 of them are Federals, established under the sections

of the Home Owners' Loan Corporation Act. Their total capital is now about $30,000,000.

Mr. BROWN. I think practically a third of those are in the large cities. We do not have many country agencies. We have one in my town, and one in the larger cities.

Mr. BODFISH. Are they making title II loans out in the small towns?

Mr. BROWN. Yes, sir.

Mr. BODFISH. Good.

Mr. FORD. Twenty-five percent are dealing with the F. H. A. now, and six are in Atlanta.

Mr. BROWN. They are principally in the large cities?

Mr. BODFISH. Answering Mr. Brown's question, I think there are very few cities where they have not established local financial institutions. I think the whole story behind the story of Georgia, in the building and loan business, goes back to the depression of the 1890's when they were loaning money all over the Middle West.

Mr. BROWN. Of course, we get some benefit out of title I.

Mr. BODFISH. But I think Mr. Ford's loan can be refinanced 5 percent or 5½ percent, without any Government guaranty. The institutions are tickled to death to get loans.

Mr. WILLIAMS. To what extent have the building and loan associations taken up this gap between 66⅔ and 80 percent on Federal Housing Administration loans?

Mr. BODFISH. Well, we make some loans that go up to 75 and 80 percent, when you have a good man, a man of character, and a good real-estate situation. I would say that our typical loans, at the present time, average about what the Federal Housing Administration's were, until you put in the 90-percent feature. You see, your F. H. A. was insuring loans averaging about 70 percent of the value up until you put in the 90-percent feature, and then they averaged just about 80 percent. We have no difficulty meeting reasonable competition, as far as the rate and percentage is concerned. But when you moved on up to 90 percent—well, we are not making 90-percent loans.

Mr. WILLIAMS. We are not either, on existing structures. It is a fact, is it not, that the building and loan associations, unless it is an insured mortgagee, cannot enter that field at all?

Mr. BODFISH. In some States they are going to 66⅔ percent, and in others up to 75 percent. I would say 75 percent, which is the maximum of all of the Federal associations, of which there are some 1,500, except on the insured mortgage basis, is probably the typical formula we follow. But you see, if you get up into these higher percentages, we have to begin splitting hairs a little bit, because it turns somewhat on the appraisal. We knew of other financial institutions, prior to the depression, that never loaned more than what they called 50 percent loans, or 60 percent loans. Now, whether it was 50 percent or 60 or 80 or 100 percent depended on how wise and conservative their judgment of value was.

I think that I would want to make the general statement, Mr. Williams, that we could handle, generally, the needs in the community and give about as high a percentage loan as it is good for the borrower to have. I do not think we ought to encourage these borrowers to borrow too much, or to borrow the highest percentage you can think of in connection with loans. I think the significant thing, in public

policy and to the home owner, is to get the people out of debt, rather than getting into a larger debt and staying in debt too long.

Mr. BROWN. For the record, Mr. Bodfish, I notice your report only shows 24 building and loan associations.

Mr. BODFISH. Those are only the F. H. A. approved mortgagees, I assume.

The CHAIRMAN. Mr. Bodfish, pursuing Mr. Williams' question, what he is undertaking to elicit is the facts with respect to the legal limitations imposed by the legislatures of the different States.

Mr. BODFISH. Our legal limitations upon all of the Federal associations are 75 percent. We have some States where there are no legal limitations at all on our institutions. You see, we have traditionally been high-percentage lenders. For example, in the State of Massachusetts, our legal limit is 80 percent for cooperative banks, which is what the building and loan associations are called there. In my State of Illinois, there is no top percentage limit; we can go as far as our prudence directs; whereas, the State of Ohio, as I recall, is 66⅔ or 70 percent, and I do not recall which.

The CHAIRMAN. How many States limit you to 66⅔ percent on uninsured mortgages?

Mr. BODFISH. On uninsured mortgages? I would not know, without looking into it. I do not think there are so very many. You see, most customary percentages are found in the Federal charters, because this Federal charter was a draft or plan based on the best practice and the customary practices, and it was put at 75 percent, top, and you will find that we can go to practically that in most States.

Mr. WILLIAMS. You make loans for renovation purposes now, do you not?

Mr. BODFISH. Yes; that is right.

Mr. WILLIAMS. Did you do that before the F. H. A.?

Mr. BODFISH. Yes; in practically all of our mortgages we have a clause permitting us to make further advances for the payment of insurance and taxes and modernization. If a man needs $500 to renovize his place, we merely take an additional $500 note and give him the money.

Mr. WILLIAMS. Has that insurance feature, under either one of these titles, influenced your lending policy for that purpose?

Mr. BODFISH. I do not know. I think it has always been our practice to make funds available to a sound borrower for repairs, because, after all, it helps maintain the physical security of the property, and we are inclined to encourage that kind of action.

Mr. WILLIAMS. What dividend is paid by the building-and-loan associations?

Mr. BODFISH. About 3 or 3½ percent and some pay 4 percent. At the present time, the rates are about 2 percent lower than they were 10 or 15 years ago.

Mr. WILLIAMS. What about your rate of interest to the home owner?

Mr. BODFISH. Taking the country as a whole, we are lending a great deal of money at 5 percent, and I suppose the most typical rate is about 5½ percent, and the top is about 6 percent.

Mr. BROWN. With repayments monthly?

Mr. BODFISH. They all pay monthly, Mr. Brown.

Mr. WILLIAMS. What was it before this time?

Mr. BODFISH. I would say it was about 1 or 2 percent lower than before the depression. The whole interest rate structure is much lower now, whether it be municipal securities, Government securities, industrial securities, bank deposits, savings and loan shares, or mortgages, than it was 10 or 15 years ago.

Mr. WILLIAMS. Has the lower rate of interest been affected by the Federal Housing Administration?

Mr. BODFISH. I think some, but even more so by the policy of the H. O. L. C., which charged a genuine 5 percent on mortgage loans. I do not think those two instrumentalities have been the entire explanation of the low-money rates. Rates have always been low on mortgage money in the recovery or postdepression period when you have large amounts of capital seeking safe investments.

Mr. GIFFORD. In your statement there seems to be a rather apologetic statement of two or three lines, saying you have used the F. H. A. for about 10 percent. Is that to meet the competition, or to take care of some certain mortgages?

Mr. BODFISH. No; it has been used to meet competition. After all, the F. H. A. has done a wonderful sales and promotion job, on the radio, and through the mails; and as I brought out before the committee yesterday, even sometimes going and writing a letter to every home owner in the community and inviting him to switch his mortgage, and the like.

Mr. GIFFORD. It is to meet competition?

Mr. BODFISH. It is essentially to meet competition, that is right. If somebody says, "I want to make an F. H. A. loan," we would rather make it than let it get away from us.

Mr. GIFFORD. You are trying to compete with an agency that can borrow money at 2 percent and then loan it at 5 percent?

Mr. BODFISH. The agencies of the Federal Government? Yes, and that is pretty difficult.

Mr. GIFFORD. You cannot live under such competition, can you?

Mr. BODFISH. No; especially as their rates may eventually go too low for private business. We think we can conduct a local mortgage institution or business on about a 2-percent spread.

Mr. GIFFORD. Eventually, you will have to have all of your mortgages come under that umbrella, you might say?

Mr. BODFISH. Yes; we have that suspicion, and we are apprehensive about it, and that is why we are here. We want, seriously, to see the policy suggested by the President and written into this legislation, namely, that the insurance of existing mortgages stop on July 1, 1939, carried out.

Mr. GIFFORD. I understand your whole statement means that, where the saw and hammer can now be used, you are willing to yield a great deal?

Mr. BODFISH. That is right, we raise no question, because we want to see men at work.

Mr. GIFFORD. But the system will eventually, I dare say, envelop the whole field of that business?

Mr. BODFISH. The statement has been made in the F. H. A. memorandum to the committee, that all 10,000,000 of the urban home owners are entitled to this service, if any part of them are, and that will be the ultimate goal.

Mr. GIFFORD. The contemplated revival of financing is just something to jeopardize the whole structure, is it not? That is a fair question, is it not?

Mr. BODFISH. Let me consider that very carefully——

Mr. GIFFORD. I have the facts here from the real estate boards, which say that it is jeopardizing and practically ruining the present rental structure, because they get out of the buildings to go into the new ones. This is a protest signed by the real estate boards, and even chambers of commerce, that the temporary revival will simply jeopardize the whole real-estate structure.

Mr. BODFISH. I think excess credit and excess building is just as dangerous to the country as the lack of credit and no building, and the problem is to find an intelligent, steady, middle course to follow, that we do not have too many peaks and valleys in.

Mr. WILLIAMS. Are you suggesting that there is an excess building program on now?

Mr. BODFISH. There is, in some areas.

Mr. WILLIAMS. Where are they?

Mr. BODFISH. I would say in part of the California area, where some 20 percent of the Federal Housing Administration's business was last year. If Mr. Barry were here, I would like to have his opinion on the building program in the Queens area in New York. I think they are overbuilding a little bit in Detroit at the present time. I do not think private building is generally excessive at all, but there are danger spots.

Mr. WILLIAMS. From all the information I have, there seems to be a certain desire on the part of everybody to stimulate the building industry, not only from the standpoint of furnishing labor to people and giving them something to do, but also to stimulate the durable-goods industries as well, and still further provide better housing facilities to the people throughout the country.

Mr. BODFISH. But it may be overdone in areas, and it will ultimately be overdone in the country, if we do not proceed with some caution. After all, we think of the 1929 crash and depression as a stock-market crash and depression. As a matter of fact, it was the end of the worst real-estate boom that this country had ever seen since 1837. We had too much credit, and the mortgage structure was inflated with excessive loans, and I think, caused many bank failures and other difficulties. The collapse of the building boom and the real-estate boom was as great a factor as the security market.

Mr. FORD. Was not that due to the fact that there were too many mortgages on property, where we had second and third mortgages? In California, we have a first loan of 50 percent and a second loan of 25 or 30 percent, and a third loan of 20 percent, and of course, the buyer, when he fails to pay the interest on the first and the amortization on the others, could not get by.

Mr. BODFISH. He could not carry it through a distress period, when his purchasing power was falling. But if you lend anybody 100 percent of the cost of a building structure, you will get an overproduction of the structures.

Mr. FORD. There is another question I would like to ask, and this is not criticism, but it is just a question for information: Is it not a fact that we ought to leave one area, at least, in the mortgage business,

where people would loan their money and take the normal business risk, without insurance? The only area left now is the commercial loan. If we are going to insure everything, we had better get busy and insure stocks and bonds and all other things.

Mr. BODFISH. Financial businesses and the like, yes.

Mr. FORD. It seems to me there ought to be some area where, normally, money would be willing to take at least the normal risk in loaning a fair amount of money on a piece of property, and expect to get a fair rate of interest, have it paid out without the interposition of anybody?

Mr. BODFISH. I think that is extremely sound, and in areas in which the Government is going to assume the risk of loss, there ought to be a convincing public reason for it. Maybe it is in new construction, maybe it is in the financing of small businesses that I see discussed in the press, but I would like to see the area of existing mortgages left to the local institutions.

Mr. BROWN. I want to ask one question: I understood you to say a borrower receives the money and pays it back in monthly installments at an interest rate of 5½ percent?

Mr. BODFISH. Yes, 5, 5½, or 6 percent.

Mr. BROWN. That was not true in my section, and some other sections a few years ago. It amounted to about 9 percent in some sections.

Mr. BODFISH. I do not see how, at the present time, Mr. Brown, an institution can lend money at 9 percent, when the F. H. A. is making a rate to borrowers of about 5½ percent to 6 percent, and all of the institutions I am familiar with are just crying their eyes out to lend their money.

Mr. BROWN. I know they paid 3 percent on stock up until 2 or 3 years ago and the borrowers paid around 9 percent.

Mr. BODFISH. I am very surprised at that. To give an illustration, I am very familiar with saving-and-loan associations in Chicago, with a capital of about $6,000,000. Their average interest rate on our currently made mortgages is 5.3, and it is falling. They expect it to go to 5 percent, maybe lower.

Mr. PATMAN. Mr. Bodfish, you gave as one argument against continuing that part of title II which refinances the existing structures, the statement the President made that we should eventually get out of that type of business.

Mr. BODFISH. That is right.

Mr. PATMAN. I just wonder if you are correct in your assumption that the President made the arbitrary date, such as June 30, 1939? In other words, the President said we must eventually get out, and I do not know whether he meant by that 1 year or 5 years or 20 years. You figure 1939 was arbitrarily fixed by Congress, that the date July 1, 1939, was arbitrarily fixed by Congress?

Mr. BODFISH. I do not know how arbitrary Congress was. Congress considered his suggestion and set it at that particular date. Mr. McDonald came before the committee and recommended it, and he said in his testimony, "We want to stop this July 1, 1939." As a matter of fact, I quoted his statement before this very committee. So Mr. McDonald and the Congress followed the suggestion of the President, setting the date. I admit the President did not say "June 30, 1939."

Mr. PATMAN. You are just assuming that it would meet with his approval? You do not know whether it would, or not?

Mr. BODFISH. I confess he does not consult me on these matters.

Mr. PATMAN. And you confess, too, that if, in the light of experience, you should change your policy, your business policy, you would not hesitate to do so, would you? In other words, if you were to say, as president of this building and loan in Chicago, "We are going to get out of a certain type of business on a certain date," yet, if conditions changed, and in the light of your experience, you felt like it was wise, you would not hesitate to do so, would you?

Mr. BODFISH. Yes; with one qualification, Mr. Patman. That I have never found yet, except once, a Government agency, with its personnel, that ever arrived at a date when it would be wise, in their judgment, to terminate or diminish their activities, and I think that is our problem. I think the exception to it is the Home Owners' Loan Corporation. I had a little part in helping plan that. They set the date and they quit at that date.

Mr. PATMAN. Since you used the testimony of Mr. McDonald in support of your argument, I quote what purports to be an exact copy of Mr. McDonald's testimony on that point, when he said, on November 30, 1929: "We desire to eliminate that old financing after July 1, 1939."

He did not say "Absolutely, now, we are going to stop this, but it is our desire to conclude by that time."

Mr. BODFISH. I have the quotation right from the record, and I would be very glad to discuss that with you. He said, "We desire to eliminate that." Then there is a new sentence: "After July 1, 1939, F. H. A. will drop out of existing construction except houses which it has previously insured and of which it may be in possession or have to accept after foreclosure." He did not say "should" or "may" or "might," but he said "will."

Mr. PATMAN. If you were in Mr. McDonald's place and you had made that statement, yet if the situation has arised that it is in the public interest to extend title II on existing construction, you would not hesitate to recommend it, would you?

Mr. BODFISH. If there is an emergency or some compelling public reason, or social purpose, yes; but that is what we have been trying to explore for a long time, but we do not think there is any reason for it.

Mr. PATMAN. We must presume that he is honest in his views that there is a real reason for it.

Mr. BODFISH. Yes; I think, of course, he is honest; but no Government agency that I know of has, with a few exceptions, ever found a date on which it ought to be terminated.

Mr. GORE. Do you have any record of the number of losses which the building and loan associations have had—I mean existing loans which have been lost as a result of refinancing the same properties through the F. H. A.?

Mr. BODFISH. I do not have a record of that; no.

Mr. GORE. That is a matter that is pertinent to this question. Will you get some records on it and put it in our record?

Mr. BODFISH. Yes; if there are any records available. That is a kind of hard thing to get a record of, Congressman Gore, and I do not know that the official statistics that we keep will develop anything for the entire country. I will say this: That if you consult some of

these building and loan people, you will find they will give you pretty good testimony, or individual testimony on it, that they are losing loans this way.

I think the letter I gave you yesterday was a startling piece of evidence of the thing we are up against, in which, under the Government frank, Government officials, on Government time, and Government expenses, they come down and write every mortgagor and invite him to switch his mortgage from a local institution and borrow more than he now owes, and attempt to get him away from the local institutions, if possible.

Mr. GORE. I particularly had this letter in mind as I was asking you the question. Of course, it was submitted as a means of purporting that the F. H. A. was advertising for your loans. However, I fail to see anything in the letter that specifically indicates that. The most revealing thing there is this, "Are your monthly payments burdensome on your present loan?" Could not that refer to the length of the amortization, rather than the usurious rates?

Mr. BODFISH. Yes, but if the buyer is making his payments and satisfied and going along and going to get out of debt in 11 or 12 years, why should they go out, with the prestige of the Government behind them, and try to keep him in debt for a period of 25 years?

Mr. GORE. Are you opposing this section of title II on the basis of the loss of existing loans as the result of F. H. A. refinancing?

Mr. BODFISH. Partly. It is partly a loss of loans, and partly the development of a system in which brokers are soliciting our loans and they are bought and sold and transferred out of our communities, and all done on the guarantee of the Government. We think that is an unnecessary action of the Government in a field that is occupied by private business, and which can be adequately served by private local business.

Mr. GORE. I am interested in this particular feature, and you have made your position plain in the latter part of your answer, but I have not before noted in this hearing, that you were opposing it because of the loss of these existing loans.

Mr. BODFISH. We are losing them. That is why our people are all stirred up and indignant about it. That is why we are stirred up and indignant about it. We are losing them.

Mr. GORE. Thank you very much.

Mr. SPENCE. Did you think conditions justified the enactment of this legislation at the time it was enacted, insuring existing loans?

Mr. BODFISH. No, I did not. Even at the time of my testimony before the committee my op nion was that title I would do a lot of good work, and title II, so far as new construction is concerned, would do a first-class job. But at the time, I did not see why in the world we ought to chisel the other fellow, if I recall my language, in order to induce the commercial banks into this field. And incidentally, two-thirds of the F. H. A. mortgages have been made by commercial banks. That they ought not to make any long-term real-estate loans is generally recognized by careful experienced bankers, but the F. H. A. says, "We will give you a 5-percent investment as a banking institution, if you happen to make a good mortgage, but if you make a bad one, we will give you a Government bond and the United States will get the real estate." I have never seen that there was any justification for that, as regards existing mortgages.

Mr. SPENCE. What have been the conditions since the passage of this act with reference to the conditions at the present time?

Mr. BODFISH. I think there has been a considerable increase in the volume of mortgage money available. Many lenders have come back into the field that were not active then. I think that, when this act was up for passage, our institutions were the most active lending institutions at that time. The insurance companies were largely out of the field, temporarily. The savings banks were out of the field, at that time, largely. The commercial banks were clear out, because mortgage loans were the reason for a lot of their troubles, because they were in too far in the real-estate field, 5 years ago. I think most of the mortgage capital was timid. You pick up any newspaper in any town and you will find every institution in that town aggressively seeking mortgage loans, and at very, very reasonable rates. I think the rate structure has dropped one to two points in the last 3 or 4 years.

Mr. SPENCE. What would you say had been the increase in the available funds, from the time of the enactment of the act in 1932?

Mr. BODFISH. That is hard to estimate, Mr. Spence, because I do not know just what was available and actively seeking investment in other institutions. It is very hard to lump them all together.

Mr. SPENCE. When you talk about limitation on loans, that depends almost entirely on the appraisal, does it not?

Mr. BODFISH. Yes; it does, largely.

Mr. SPENCE. It is practically ineffective to say you can lend 66⅔ because, if a man is a particularly good risk, and a man of good character, they can make a higher loan?

Mr. BODFISH. I think you are being pretty practical, Mr. Spence. As a matter of fact, the only thing is that you cannot appraise down to the absolute degree of precision. You can take a high percentage loan application, and you study the whole thing, the property, study the man, and you will say, "I know Congressman Ford will pay it back," and sometimes institutions will lend 80 percent plus.

Mr. SPENCE. They can make their own appraisal, in a manner that will largely nullify the limitations of the statute.

Mr. BODFISH. They will make a more generous loan on account of the character and capacity and personal covenant of the man.

The CHAIRMAN. Miss Sumner?

Miss SUMNER. Mr. Chairman, I missed the first part or the beginning of his testimony, and I was interested to know what particular group of people Mr. Bodfish represents. Do you represent the building and loan associations of the United States?

Mr. BODFISH. I represent the United States Building and Loan League, which is about a 50-year-old organization, composed exclusively of building and loan associations. That includes the Federal building and loan associations, which are building and loan associations chartered by the United States Government, including the cooperative banks, which is the name by which these institutions are known in the State of Massachusetts and several of the other New England States. There are some 4,000 of those institutions in our organization, and we represent about 80 percent of the total assets in the field.

Miss SUMNER. What about the services of these organizations? In Illinois, the stockholders are the mortgagors themselves, so far as the money is concerned. Is that true of all of these institutions?

Mr. BODFISH. Well, we have about 6,000,000 investing members which, in bank parlance, would be called depositors, but they are shareholders or account holders in our institutions, and about 1,500,000 of borrowers, individuals who have mortgages with these institutions. Technically they are all members. These are cooperative institutions, and anyone may participate in them as a member, and has a part in the corporate or institutional procedure and share in the distribution of earnings and the like.

Miss SUMNER. And you say your average loan was what?

Mr. BODFISH. Two thousand two hundred dollars in 1938.

Miss SUMNER. In other words, it would be fair for us to assume here that you are speaking for a large group of little people, as we might call them?

Mr. BODFISH. We deal more with the little people than any other financial institutions. We get further down in the income scale than any of the other institutions.

Miss SUMNER. I thank you.

Mr. FORD. Since the inauguration of the F. H. A. loans on existing mortgages, has your volume increased or decreased?

Mr. BODFISH. We have increased some. We fell off $100,000,000 last year, with our $800,000,000 volume in 1937, and we had $700,000,000 volume in 1938. Now, possibly a part of that was due to the modest business recession we had in early 1937, and possibly part of it was due to the F. H. A. mortgage activities on the part of other lending institutions. For example, in 1938, I think about $100,000,000 of F. H. A. mortgages were made—that is not correct—were bought by the Government, itself, which is equivalent to making them, where one government agency insured them and another government agency buys them. So it is the Government competition and foreign lender competition, plus probably a little bit of uneasy business situation, which cut us down in 1938.

Mr. FORD. Then, as a matter of fact, would this be true: If you availed yourself more largely of the F. H. A. provisions, the insurance provisions—do you think by doing that you could increase your volume?

Mr. BODFISH. In other words, if we had the Government carry our risk on more of the property, more of the loans? Possibly if the top is going to be taken off and the Government continues to promote it, officially, as permanent policy, we will have to get a line, and the only way mortgages will be made, will be made on the F. H. A. plan. That is one of our apprehensions about continuing the existing mortgage business.

Mr. FORD. In other words, you would use the F. H. A. more than at the present time?

Mr. BODFISH. I think that is a fair statement.

Mr. WILLIAMS. Do you sell any of your mortgages?

Mr. BODFISH. There are a few institutions that sell their mortgages. I would say 98 percent of the building and loan associations, who have made F. H. A. mortgages, have not sold them, any new F. H. A. mortgage. In general, we never sell mortgages. We get a fund of money together and lend it out, ourselves.

Mr. WILLIAMS. Those that you do sell, whom do you sell them to?

Mr. BODFISH. So far as I know, the only ones that have ever sold any mortgages, have sold the high-percentage ones, that represented

less preferred risks probably to the RFC Mortgage Co. or to the Federal National Mortgage Association.

Mr. WILLIAMS. Do you know what the market is on those insured F. H. A. mortgages?

Mr. BODFISH. The RFC bought them at par, as I recall. There are some places where there are some F. H. A. mortgages that are sold under this scheme, some that net the purchaser 4½ or 4¼ percent. That does not mean that is what the borrower pays. The cost to the borrower is 5 percent, plus the insurance charges, commissions, and the like?

Mr. WILLIAMS. In other words, they are sold at a premium?

Mr. BODFISH. They are sold, some mortgages, at a premium; yes.

Mr. FORD. Are those sold to individuals?

Mr. BODFISH. No; as I understand it they are sold to institutions. They cannot be held by individuals under the act.

Mr. FORD. Is not that, itself, a rather bad restriction? There must be thousands of people in the United States who, at the present time, have money and do not know what to do with it, except put it in the banks and not get anything for it, or put it in time deposits and get probably 1 or 1½ percent? If these insured mortgages were loosened up so that anybody could buy them, where we would have the selling institutions to service them, at 4½ or 4 percent, would not that have a tendency to bring in a lot more money that is not now in the mortgage market?

Mr. BODFISH. I think it would, Mr. Ford, but I am doubtful a great deal as to the advisability of embarking upon that course, because the situation you would have then would be a very great flood of money, without any local corporate responsibility, or local institutional responsibility in administering them, and every loan that involved a loss would be automatically charged down here to the United States Government through one of its agencies. I think that is the real reason for maintaining the responsible local institution, to take the applications, to make the mortgage loans, and, if you please, to assume the risk of their own money in collecting it back, because if they do not take some risk, you know, it will eliminate all bounds of restraint and caution in lending.

Mr. FORD. Let us take a hypothetical case: We will say the First National Bank has $50,000 in its portfolio and its mortgages run up to an average of $5,000, and it says to an individual, "We will sell it to you to net you 4½ percent," or, let us say, "4 percent." They retain the servicing of the mortgage, but they would get his money for it and make a little profit on it. What would be the objection to that, on the part of the building-and-loan associations?

Mr. BODFISH. I think the objection there would be the proposition that you have no responsible institution in that sort of situation to service it, where the only interest is in the little service charge in collecting that money. But suppose it gets into difficulty, and the like, which is where the responsibility and problems and costs of the mortgage business are. But I think probably it would be a good thing for the individual, and he would get 4½ percent, although he would have to go through this foreclosure procedure in order to get his Government bonds. But I think it would become a very loose and ill-administered kind of mortgage transaction, with the Government paying the losses.

Mr. FORD. That question has been asked me repeatedly.

Mr. BODFISH. You might be interested in seeing this. This is an announcement of a concern in Cleveland, Ohio, which has mortgages to sell, and they list them at different rates. That will give you a very practical picture of what happens when you put the guarantee of the United States Government on them, and make them almost negotiable paper like municipal bonds, and start selling them up and down the land.

(Exhibit referred to appears at end of this day's testimony.)

Mr. GIFFORD. I do not know but what you may have touched on this, but which would give the most sympathetic consideration to a mortgagor in difficulty, a foreign investor or your local lending institution?

Mr. BODFISH. I think your local institution will come closer to working out a program that will fit that man's needs and problems. You take a mortgage held far away, and that mortgagee has to go right through the routine, in order to protect himself.

Mr. GIFFORD. There is no question but that the local institution is more sympathetic?

Mr. BODFISH. No, sir.

The CHAIRMAN. Mr. Bodfish, we want to thank you; we are always glad to have you with us.

Gentlemen, we have former Congressman, Mr. Brigham, of Vermont, who is head of the National Life Insurance Co. of Vermont, and we are anxious to have him discuss this bill. However, I do not see how the committee can remain in session much longer.

Let this be off the record.

(Here followed discussion off the record.)

The CHAIRMAN. Without objection, we will adjourn until 10:30 o'clock tomorrow morning.

(Thereupon, the hearing was adjourned until Friday, March 10, 1939, at 10:30 a. m.)

Folsom Hayward & Co., Federal Housing Administration financing, Cleveland, Ohio, member Mortgage Bankers Association of America, specialists in Federal Housing Administration insured mortgages

WE OFFER SUBJECT TO PRIOR SALE AT 103 AND ACCRUED INTEREST AT 4½ PERCENT, TO YIELD APPROXIMATELY 4.18, FEB. 18, 1939

Federal Housing Administration No.	Name	Address	Year built	Term	Ratio loan value	Principal
		BAY VILLAGE				
[1] 41-108865	Foulds	29804 Foote Rd	1929	20	80	$4,700
		CINCINNATI				
[2] 41-023766	Allensworth	Plainfield Pike	1929	19	80	5,600
[2] 41-023825	Baker	Columbia Township	1938	24	90	5,400
[2] 41-023790	McDonald	1178 Herschel Ave	1923	20	73	4,200
[2] 41-023917	Miller	4601 Howard Ave	1932	20	80	8,000
[2] 41-023623	Novotny	4350 Kirby Ave	1930	19	76	4,200
		CHAGRIN FALLS				
[2] 41-110387	Kellam	366 Washington St	1938	15	78	4,700

[1] Available for immediate delivery.
[2] Delayed delivery about 2 weeks.

Folsom Hayward & Co., Federal Housing Administration financing, Cleveland, Ohio, member Mortgage Bankers Association of America, specialists in Federal Housing Administration insured mortgages—Continued

WE OFFER SUBJECT TO PRIOR SALE AT 103 AND ACCRUED INTEREST AT 4½ PERCENT, TO YIELD APPROXIMATELY 4.18, FEB. 18, 1939—Continued

Federal Housing Administration No.	Name	Address	Year built	Term	Ratio loan value	Principal
		CLEVELAND				
[1] 41-108779	Archibald	9012 Kempton Ave	1918	15	79	$3,500
[2] 41-110437	Gavin	12702 Bartfield Ave	1918	20	80	3,200
[2] 41-110303	Hayes	12105 Marne Ave	1929	15	70	4,400
[1] 41-106918	Koslen	4290 East 139th St	1925	15	72	3,100
[2] 41-108949	Korb	4656 West 15th St	1939	20	77	6,000
[2] 41-108780	Lubin-Holtz	3581 East 153d St	1924	20	80	6,400
[2] 41-110436	Porath	9224-9226 Adams Ave	1923	15	76	4,600
[1] 41-108621	Reese	3398 East 134th St	1926	12	72	2,600
[2] 41-110607	Rohr	13606 Kelso Ave	1923	20	80	3,800
[2] 41-108948	Walker	4672 West 15th St	1939	20	80	6,400
[1] 41-107213	Walfram	10114 Loretta Ave	1923	15	63	2,700
		CLEVELAND HEIGHTS				
[2] 41-110355	Jacob	3272 Cedarbrook Rd	1930	19	80	5,200
[1] 41-107760	Mendelsohn	964 Selwyn Rd	1926	15	73	3,200
[2] 41-110304	Schrock	1061 Nala View Rd	1937	15	60	4,400
[1] 41-107346	White	1626 Coventry Rd	1924	15	77	6,600
		EAST CLEVELAND				
[1] 41-107759	Jacobson	13815-17 Shaw Ave	1914	15	80	5,000
		EUCLID				
[2] 41-110052	Carr	110 East 219th St	1921	19	78	4,400
		LAKEWOOD				
[2] 41-110305	Dunn	1585 Clarence Ave	1918	15	71	5,000
[2] 41-110519	Scholtz	1522 Mars Ave	1905	20	78	5,300
[1] 41-108777	Simonds	1620 Waterbury Rd	1923	15	80	6,000
[2] 41-110354	Stotter	13939 Clifton Blvd	1924	20	80	8,200
		MAYFIELD HEIGHTS VILLAGE				
[1] 41-106920	Lorenz	1214 Washington Blvd	1928	15	73	2,400
		PARMA				
[1] 41-107647	Grabe	6515 Theota Ave	1932	15	80	4,600
[1] 41-107543	Wagner	6810 ____do	1923	15	71	3,200
		ROCKY RIVER				
[2] 41-110515	Shaw	352 Morewood Pkwy	1936	20	77	12,800
		SHAKER HEIGHTS				
[1] 41-105857	Senior	4358 Ardmore Rd	1933	20	80	4,800
[2] 41-110495	Wexler	3429 Ashby Rd	1929	20	78	9,000
		TOLEDO				
[1] 41-105754	Adams	1942 Lawrence St	1900	15	80	2,800
[1] 41-107817	Allen	4905 Douglas St	1907	19½	62	4,000
[1] 41-107817	Barsch	2635 Glenwood Ave	1918	20	80	5,000
[1] 41-107134	Bierbaum	1847 Norwood Ave	1923	12	63	1,900
[1] 41-104936	Carlos	2323 Robinwood Ave	1903	15	74	5,200
[1] 41-104987	Church	4144 Eastway	1924	20	80	4,800
[1] 41-103026	Campbell	527 Tennyson Pl	1919	19	80	5,400
[1] 41-107043	Collins	3623 Homewood Ave	1918	17	74	4,300
[1] 41-105773	Dolbee	2132 South Street	1925	20	80	4,500
[1] 41-108068	Daniels	1940 Crosswell Pl	1924	19	70	7,400
[1] 41-105004	Ebright	1844 Macomber St	1925	15	80	3,200
[1] 41-107364	Epple	3311 Beverly Blvd	1926	19	80	4,900
[1] 41-106347	Franklin	455 West Manhattan Blvd	1926	15	66	3,500
[1] 41-107914	Frisoie	2674 Northwood Ave	1928	17	80	5,200

[1] Available for immediate delivery.
[2] Delayed delivery about 2 weeks.

Folsom Hayward & Co., Federal Housing Administration financing, Cleveland, Ohio, member Mortgage Bankers Association of America, specialists in Federal Housing Administration insured mortgages—Continued

WE OFFER SUBJECT TO PRIOR SALE AT 103 AND ACCRUED INTEREST AT 4½ PERCENT, TO YIELD APPROXIMATELY 4.18, FEB. 18, 1939—Continued

Federal Housing Administration No.	Name	Address	Year built	Term	Ratio loan value	Principal
		TOLEDO—continued				
[1] 41-106188	Goetz	2024 Braine Pl	1926	19	66	$3,000
[1] 41-107169	Gorsuch	3613 Almeda Drive	1920	05	80	2,700
[1] 41-107875	Hastings	2417 Charlestown	1920	19	80	4,300
[1] 41-106788	Heidloff	1419 Foster Ave	1924	19	80	4,300
[1] 41-107455	Howe	937 Geneva St	1910	15	54	1,900
[1] 41-107840	Hunt	4644 296th St	1927	19	80	4,000
[1] 41-106733	Kamm	4136 North Lockwood St	1930	19	80	5,200
[1] 41-105921	Lankenua	1702 Marne Ave	1922	15	74	4,800
[1] 41-106905	Leunex	4710 North Haven Ave	1923	15	77	2,700
[1] 41-106591	Lundborg	1608 Shenandoah Ave	1923	15	80	3,600
[1] 41-107977	Mallory	1530 Watova Rd	1930	17	80	8,400
41-106382	Murneu	3506 Alexis Rd	1925	19	80	4,400
[1] 41-107226	Murphy	33 Weise St	1923	20	80	4,600
[1] 41-106590	McLachlin	531 Boston Pl	1917	15	80	3,400
[1] 41-107916	Martin	630 Willard St	1911	17	80	4,400
[1] 41-107818	Millar	1114 Underwood Ave	1920	17	73	3,500
[1] 41-106779	Newbert Co	4861 298th St	1929	19	67	3,700
[1] 41-106952	Nealson	1829 Borden Ave	1918	20	80	4,400
[1] 41-106113	Ortendahl	1856 Nelson Ave	1926	15	77	2,700
[1] 41-106322	Reetz	3118 Glanzman Rd	1930	17	80	4,400
[1] 41-107049	Ritter	2646 Gracewood	1924	15	80	4,200
[1] 41-108577	Showel Co	2121 Alvin St	1929	19	72	4,500
[1] 41-107244	Smith	2002 Giant St	1924	15	76	4,000
[1] 41-106535	Watkins	1212 Halstead St	1924	15	77	2,700
			1925	20	75	3,500

MORTGAGES OFFERED AT 106 PLUS ACCRUED INTEREST AT 5 PERCENT TO YIELD APPROXIMATELY 4.25

[1] 41-101042	Amberg	817 Frederick St	1907	19½	53	$2,800
[1] 41-008431	Brown	2536 Gracewood Rd	1937	15	67	3,300
[1] 41-101672	Buckeye Realty	1224 Albert St	1921	15	71	2,400
[1] 41-101673	do	1030 Liberty St	1921	15	70	2,000
[1] 41-100975	Copic	1224 Alldays Ave	1927	19½	72	2,000
[1] 41-101773	Everaitt	3915 Rohr Drive	1937	19½	77	3,600
[1] 41-009616	Howard	5908 Gany Mede Drive	1937	19½	70	3,500
[1] 41-008880	Kettring	1118 Clymena St	1937	19	73	4,000
[1] 41-100369	McCreery	358 Victoria Pl	1919	19½	77	4,400
[1] 41-102653	Murnen	5832 Acoma Drive	1929	19½	76	3,000
[1] 41-002613	Munen	5848 Acoma Drive	1929	19½	73	3,400
[1] 41-008608	Neidhardt	1923 Alvin St	1937	19½	76	5,000
[1] 41-102799	Owczarzak	645 Marmion Ave	1927	15	63	3,000
[1] 41-100746	Romano	1714 Greenwood Ave	1917	19½	76	2,000
[1] 41-100974	Skiba	32 W. Weber St	1917	19½	67	2,700
[1] 41-104378	Sullinger	3516 Homewood Ave	1926	15	58	3,000
[1] 41-100849	Wittman	3811 Drummond Rd	1937	18	77	5,000

The Federal Housing Administration, through its authority under title II, section 203, of the National Housing Act, as amended February 3, 1938, operates the mutual mortgage insurance fund and insures first mortgages for approved mortgagees or assignees on one- to four-family residences, providing the amount, term, and conditions of the mortgage, the structures, the neighborhood, and the borrower exceed the minimum standards of eligibility provided by the underwriting procedure of the Administration.

This insurance covers the full amount of the mortgage, which may be an amount representing as much as 90 percent of the Administration's valuation on newly built one-family structures for owner occupancy, if the amount of the mortgage does not exceed $5,400 for a term up to 25 years, or representing an amount over 80 percent, but less than 90 percent of the Administration's value if the amount of the mortgage does not exceed $8,600 for a term up to 20 years. On structures

which do not qualify for the maximum ratio loans, mortgages on one- to four-family residences may represent as much as 80 percent of the Administration's value and have a 20-year term, if the amount of the mortgage does not exceed $16,000.

Federal Housing Administration insured mortgages may bear interest up to 5 percent per annum, and must be fully amortized during the term through monthly payments of principal and interest, in addition to which the borrower pays monthly amounts which are sufficient to provide an accumulation to pay Federal Housing Administration insurance premium of one-half of 1 percent per annum, taxes and assessments and hazard insurance as and when these charges become due.

Investments in Federal Housing Administration insured mortgages have many desirable features of Government bonds, such as the protection of principal and the continuity of income. This is so because in the event of default in terms of the note and mortgage, the property may be acquired through foreclosure and turned over to the Administrator, for which the holder receives debentures of the mutual mortgage insurance fund for the unpaid principal, taxes, and insurance, which debentures would mature 3 years after the term of the mortgage and bear interest at 2¾ percent having the same tax exemption as on Government bonds and being unconditionally guaranteed as to principal and interest by the United States Government. Other costs in connection with foreclosure and charges against the mortgagor are included in a certificate of claim which is liquidated as and when the Administrator disposes of the property for an amount which may be sufficient to embrace all claims.

Insured mortgages are acceptable collateral at the Federal Reserve and home-loan banks at nearly par and may be sold to the RFC Mortgage Co. or the Federal National Mortgage Association at par.

Purchasers of insured mortgages through this company are given the additional protection of foreclosure bonds in the amount of $200 per loan for the first 5 years of the mortgage, and are furnished with fidelity bond covering the trustee funds and collections handled for the purchaser's account. Accompanying the insured note and mortgage is an A. T. A. form mortgagee's policy of title insurance in the amount of the mortgage, identification certificate, and all fire and other hazard insurance policies.

Folsom Hayward & Co. handle all details in making collections, remittances, payment of taxes, and maintenance of insurance, for which services there is retained one-half of 1 percent per annum leaving the net return of 4½ percent to the purchaser. Principal and interest collections are remitted on the 25th day of each month.

Upon request we will be pleased to furnish you with booklet giving detailed information regarding our operations and services.

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

FRIDAY, MARCH 10, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Barry, Sacks, Gore, Mills, Martin, Folger, Wolcott, Gifford, Crawford, Gamble, Johnson, Kean, Sumner.

The CHAIRMAN. Let us come to order. We have this morning Mr. Elbert S. Brigham of the National Life Insurance Co. We will be glad to hear you Mr. Brigham.

STATEMENT OF ELBERT S. BRIGHAM, PRESIDENT, NATIONAL LIFE INSURANCE CO.

Mr. BRIGHAM. Mr. Chairman, my name is Elbert S. Brigham. I am president of the National Life Insurance Co. Our company, I think, is one of the five or six largest holders of loans insured under section 203, of the Federal Housing Act. We became an approved mortgagee in 1935, and have had, therefore, 4 years' experience with insured loans.

Our company had, for several years, been making standard mortgages on city properties and requiring a margin of 40 to 45 percent in value of the property above the amount loaned. Of course, coming from Vermont we were quite conservative, and that 80-percent loan looked pretty large to us. We had some doubts about the National Housing Act, because some attorneys thought it might be unconstitutional.

We had no knowledge of the efficiency of the personnel of the Federal Housing Administration, and, of course, a large number of foreclosures would be expensive, and even with insurance would make such loans unprofitable; but of course we had the problem of investing our policyholders' money. We have 175,000 policyholders scattered pretty well over the United States, and our average policy is a little over $3,100. So you see that while our assets may seem large, they are owned by a large number of people, and we try to get our money invested, if we can do so safely, in the communities where our policyholders are located. That is the source of the money that they send out. We want to build up their communities. So we started in making connections with banks that had competent real-estate departments and with other lending agencies in several States, all of them being approved mortgagees under the Federal

Housing Administration. We also took loans from our regular correspondents and from our branch offices.

We adopted rules regarding our methods of considering loans. We wanted to deal with home owners; therefore we refused to loan more than 60 percent on tenant-occupied property. We had each property appraised by our correspondent or representative; therefore we had two appraisals, the appraisal of the Federal Housing Administration, checked by an appraisal of our own representative. In States where foreclosure costs were high, we had our own inspectors, on salary, inspect the properties before we took the loans. We also required a credit report from an independent reporting agency, and had a check upon the character of the borrower, the permanency of his employment, his income, the number of his dependents, and his reputation for paying his bills.

Our experience over these 4 years has been most favorable. Our respect for the ability and efficiency of the Federal Housing Administration has increased with our experience in doing business with them. Out of this experience I believe that the insured mortgage has fulfilled a useful purpose in making it possible for families of modest income to own their own homes, by making monthly payments equal to or not greatly exceeding the sums they are accustomed to pay for rent.

Another very important feature of the Federal Housing Administration, particularly with new construction, is the fine inspection staff that they have set up to supervise construction during the construction period. That insures a building of such construction that it will endure.

Our experience will have a bearing, Mr. Chairman, upon the liability, I think, of the Government under the National Housing Act. On March 1 of this year we had on our books 5,777 residence loans, with an investment of $27,713,911. This makes the average loan about $4,800. In this period of 4 years we have had 16 foreclosures which have reached completion to the extent of our taking title to the property. We have a rule that when we obtain property by foreclosure, we have a month to decide whether or not to turn it over to the Federal Housing Administration and take debentures or to sell it ourselves or keep it. For the first 3 weeks we tell our representatives to sell the property for the amount we have in it. Thirteen of these loans have reached final completion. Thirteen out of this total of 5,777 loans on our books in a period of 4 years—13 have reached final completion, and you will perhaps be interested in the result.

Our investment in these loans was $87,335. We sold for cash properties amounting to $15,414, got out every dollar we had invested, and on one property we made a profit of $140. We received debentures of $68,100 and certificates of claim for $3,819. From the certificates of claims amount we may obtain something if the properties sell for more than the investment the Federal Housing Administration has in them.

The mortgage insurance collected on our section 203 account will probably be about $125,000 annually.

Mr. GIFFORD. To the amount of $68,100. What do you estimate would be the loss to the Government if you turned the mortgages back to the F. H. A.? Would you care to answer that?

Mr. BRIGHAM. The F. H. A. has properties, of course, against that $68,100. Of course, I cannot tell——

Mr. GIFFORD (interposing). But you estimated you could not recover, and you would rather have the debentures.

Mr. BRIGHAM. As I said before, we put the property on the market for only 3 weeks. That is all the time we have.

Mr. GIFFORD. You have no estimate of what your loss would have been if you had held the property?

Mr. BRIGHAM. We have sold $15,000 worth of property with no loss and with a profit.

Mr. GIFFORD. That is property on which you took debentures, preferring that to holding the property yourselves. We have got to assume that there will be a loss to the Government if you preferred turning the property over to them rather than holding it yourselves. What we are after is what the loss will be to the Government. I did not know but what you might have an estimate of that.

Mr. BRIGHAM. I do not have any estimate, but I should think it would be a very few thousand dollars.

Mr. SACKS. Is it not a fact that only 3 weeks were allowed as the time for disposing of the property, therefore you could not tell at this stage whether there would be any loss at all?

Mr. BRIGHAM. No; we could not. In the case of one property I remember the owner committed suicide, and of course that gave a black eye to the property in the neighborhood. That broke up his family, and there will be some time elapse before people will be willing to buy that house on that account.

Mr. SACKS. In your opinion, is it a fact that the indications are that if there is any loss at all it will be practically negligible?

Mr. BRIGHAM. Practically negligible. And, as I say, the Government is collecting $125,000 annually in insurance premiums on our account to offset losses.

The CHAIRMAN. As a matter of fact, you did not foreclose any of your delinquent mortgages? You simply negotiated cash sales for the amount of $15,000, and then——

Mr. BRIGHAM (interposing). We foreclosed and completed foreclosure and then sold the property. We have the alternative of selling the property ourselves, if it is on our books, or turning it over for debentures.

The CHAIRMAN. Is that formal foreclosure or trustee's sale?

Mr. BRIGHAM. That is formal foreclosure. We have three other properties that have not reached the stage where we have gotten debentures. When you think of 5,777 families having loans on our books, and the casualties that will normally happen to that number of families through death, divorce, and so forth, I think 16 foreclosures to date is a remarkable record.

Mr. GIFFORD. Mr. Brigham, why cannot your company, from its experience, undertake this business and save the Government, relieve the Government from its liability? Why cannot private capital do this?

Mr. BRIGHAM. Our organization would be too small, even with our comparatively large account. It is insignificant, of course, compared with the total insured mortgages of the Federal Housing Administration, scattered all over the United States, and I do not think our

experience would be typical. I think the larger coverage you have the less risk there is.

Mr. SACKS. It would cost you more to inspect these loans and everything else connected with them than would be possible for you to do?

Mr. BRIGHAM. The volume that we have—we are making loans in 26 States and the District of Columbia—the volume that we have would not warrant our setting up an organization to do what the Federal Housing Administration is doing.

Mr. SACKS. Would you have to go back to the 6-percent mortgage if the F. H. A. was not permitted to continue?

Mr. BRIGHAM. We are permitted under our charter to make mortgages up to 66⅔ percent of appraised value. That would be the limit.

Mr. SACKS. You could not go beyond that without the F. H. A?

Mr. BRIGHAM. We could not go beyond that. This bill extends the right to insure mortgages on existing construction. This I believe to be very important. The purpose of the National Housing Act is to provide a system of mutual mortgage insurance and to encourage new construction. In my opinion, the Federal Housing Administration has been very successful in promoting the very desirable purpose of making it possible for people of limited means to purchase homes with payments within their means and at a reasonable interest rate.

Now, I wish you gentlemen could see the applications that come over our desk, the type of people that are making applications for these mortgages. They are people who get salaries from $1,500 to $3,000 a year, most of them (some of them occasionally in the higher income brackets, but most of them are people of limited means), and this gives them an opportunity to buy a home with a monthly payment that is within their reach, and to borrow up to 80 percent on the existing construction, and it makes it unnecessary for them to go into the second-mortgage market to borrow money.

Prior to the passage of this act, the man who wanted to buy a home could get, say, 55 percent or 60 percent, if his record was good, from a life-insurance company or from a bank and then he went to a second-mortgage concern to borrow the balance and paid, because of the risk, a very high rate of interest, which made his payments so large that if anything happened so that his salary was reduced he could not meet them.

Another very good thing about the Federal Housing Administration program is the requirement of monthly payments of one-twelfth of the estimated taxes and one-twelfth of the estimated hazard insurance. That is collected monthly against those claims, and the borrower never has at any time in the year a very large payment, like $150 for taxes. That is all accumulated by these monthly payments and is ready for the holder of the mortgage to disburse to pay the taxes.

The encouragement of new construction has, according to figures, also been successful. It seems to me that we cannot encourage new construction unless we make it possible for owners of existing construction to sell what they now own before they buy a new house; therefore the insurance of mortgages on existing construction is necessary to promote new construction. If the Government is to be consistent, and make its mortgage system available to all citizens on equal terms, it seems to me that insurance of mortgages on existing

construction should be continued. Let us assume that Mr. A purchases a new house for $8,000 and secures a loan of $7,000 for 20 years on this new construction through the Federal Housing Administration. His monthly payments for principal and interest will be $46.20. In addition to that he would have to pay F. H. A. insurance premium and the estimated one-twelfth of hazard insurance and local taxes. At the end of 10 years the loan will be paid down from $7,000 to $4,350. Now, let us assume that Mr. A wants to buy a new house. His present one is 10 years old, and he wants to have a new home, and let us assume that he can sell his property for $5,400 to a person of lower income.

Now, whether this act passes or not, this insured mortgage may be continued for 10 years more and be transferred to the purchaser in the lower-income group, but his payments will have to be kept up to $46.20 per month for interest and principal payments, and it may be beyond his means to meet. If he could secure at that point a 20-year loan at 80 percent of $5,400, or $4,300, his payments would be reduced to approximately $29 monthly for principal and interest payments, and in 10 years the loan would be reduced to approximately $2,700, and then a person of the third income group might come along and buy the house on that basis.

I think that in order to insure normal sales of property, you have to continue this insurance on existing construction, because you deny, if you do not extend that provision of the act, the opportunity to people of these lower-income groups to buy a house 10, 15, 20 years old—in some sections older than that—my house is 100 years old, and I would not part with it for any new one that is available to me today.

Mr. BARRY. Is that comparable to the used-car market?

Mr. BRIGHAM. I think so, absolutely comparable to the used-car market.

Now, let us assume that Mr. B—remember now, when you start with this insured mortgage for 20 years you can go through the whole 20 years—let us suppose Mr. B has means so that when he purchases his $8,000 house he is able to pay down 40 percent, or $3,200, and he goes to a bank and borrows the balance of $4,800 at a lower rate. He does not need insurance, but at the end of 10 years he wants to sell this property to a person in the lower-income group, and that is probably his market, so he wants to sell in order that he may build a new house. This person in the lower-income group who is willing to pay, and can afford to pay, $5,400 for this property and meet the payments of $29 a month on a $4,300 mortgage, plus F. H. A. insurance premium, taxes, and fire-insurance assessments, is willing to buy it. He goes to the F. H. A. and wants an 80-percent loan. The man who started with the 80-percent loan can transfer his for the next 10 years; the man who had money enough to pay down and get a bank loan cannot sell his property because he cannot get an insured loan on existing construction. Now, you are keeping these people of lower-income groups from getting a better house for the money that they can afford to pay than they could build at the time. A used house, like a used automobile, sells for less money, and some people can afford nothing else.

Mr. GIFFORD. On the question of 80-percent loans, you are very familiar with the cooperative banks and their situation. Every one of them may have 150, probably 200, loans closed out. If you foreclose

on them you own them. An 80-percent loan on a $4,000 home leaves a 20-percent equity, one-fifth of $4,000, which is $800. Now, you show them $200, or even $100, and you can have the home. You talk about an 80-percent mortgage; they will take back a mortgage any time, of course, if they can get $100. So the real-estate men cannot do any business. The whole thing is overdone. There are homes everywhere, on every corner, at very low prices. There is no 80-percent mortgage, but just $100 down. Come down to Cotuit and I will prove all that to you. We have a city there where valuations have decreased by one-half. The mills are closed, and vacant tenements stare at you everywhere.

But they have just had a housing proposition given to them, and Mr. Strauss says how kind he is to me; that he wants me to know that they have granted my city a housing proposition, and I read in my local newspaper how they feel about it—the old story, get the saw and hammer going temporarily. It is just foolish. My city does not need any new houses. God knows they need to fill up what they have. But here is a vast enterprise of new houses going up. I remember what happened in 1929, along in there, with our banks taking these 80-percent mortgages. They have in Massachusetts, you know, the cooperative banks, and they would take 80-percent mortgages, and they had to foreclose on a tremendous number. But after they own them they can make any terms they will; there is no law that says they must have 80 percent; they own them and can do as they please with them. That is the condition we are up against.

Mr. BRIGHAM. That is, you refer to your own immediate locality?

Mr. GIFFORD. Yes, certainly. And I want to ask you about New York—you say you have taken so many—about the terrific foreclosure expense that has to be paid. How do you get around that? Do you dodge those mortgages or do you have our own representative there? Even with a $500 foreclosure fee, how do you get around that?

Mr. BRIGHAM. Well, in New York, where you have the $500 foreclosure, we have our own resident inspector, and we inspect that loan before we take it, even though it is insured, and then we are particularly careful about the character of the man who buys the property, and his credit report.

Mr. GIFFORD. Would you go as far as St. Louis to take a mortgage?

Mr. BRIGHAM. Yes; we have mortgages in St. Louis.

Mr. GIFFORD. And you would have a permanent representative there looking it up?

Mr. GIFFORD. No; St. Louis, or the State of Missouri, has the most favorable foreclosure law, or one of the most favorable, in the United States; and in the State of Missouri we check very carefully to see that the inspectors of the Federal Housing Administration are giving us accurate appraisals, and then, as I say, we have our correspondent appraiser. He is not our own salaried man.

Mr. SACKS. Have you done much business in Massachusetts?

Mr. BRIGHAM. Not a great deal. They have got a lot of money in Massachusetts, you know, and are not seeking outside capital.

Mr. GIFFORD. We do not need it in Massachusetts.

Mr. BARRY. I think the foreclosure fees in New York have been reduced now so that the H. O. L. C. forecloses for less than $300. Referring to the H. O. L. C. houses, which Mr. Gifford mentioned, they

are sold over an amortization period of 15 years; and if they could spread their payments over 25 years for the low-income group, do you not think a good many of those who have been foreclosed would still hold on with a 10-year extra spread?

Mr. BRIGHAM. I think so. And our experience, Mr. Gifford, with the Federal Housing Administration does not bear out what you state is the condition in your locality. We have found that they make a pretty careful investigation of rental conditions before they commit themselves on large loans particularly. Is this a large project?

Mr. GIFFORD. I am speaking about Mr. Straus now, United States Housing, not F. H. A. I am speaking about city housing.

Mr. BRIGHAM. I do not know anything about that.

Mr. GIFFORD. For the sake of getting some saw-and-hammer work done.

Mr. SACKS. In that regard, Mr. Gifford, did not your city officials or State authorities or somebody ask for it?

Mr. GIFFORD. Yes; the city officials had to ask for it to get people to serve on the Housing Authority committee. There are so many people resenting it, but the city authorities felt that they have got to do something.

Mr. SACKS. Are they not elected officials of your city, elected by your people?

Mr. GIFFORD. Yes; they usually are.

Mr. SACKS. And in their judgment it was a desirable thing?

Mr. GIFFORD. But their judgment—I would like to argue that elsewhere. But that is the problem, whether or not there is a need of this, except as temporary work.

Mr. BRIGHAM. I think there is need for it just as much to enable people of low-income groups to own their homes, good, respectable people, who have jobs that pay them $1,200 to $2,000 a year; and they can borrow at a comparatively low rate of interest enough money to own their home, and they are going to stick by that home and try to keep it. That is our experience. Now, there will be casualties, there will be divorces, families will break up, and there will be deaths and illnesses that will throw heavy expense upon the family; but our experience with 16 completed foreclosures on 5,777 houses, practically all of them owner-occupied, I think is remarkable. If anybody had told me when we started 4 years ago that we would come out this way, I would not have believed it.

Mr. BARRY. Is it not your experience in the refinancing of mortgages on existing buildings, that the passing on of those homes to the low-income group results in a considerable amount of modernization taking place, which naturally creates employment and stimulates building?

Mr. BRIGHAM. Practically every mortgage on existing construction that is presented to us with the F. H. A. application has requirements stated as to what must be done in repairing that house before the F. H. A. will insure the mortgage. In some cases, if the house is allowed to run down, those repairs are quite substantial. They are all that is necessary to put the house in good condition.

Mr. BARRY. And that is in practically every case?

Mr. BRIGHAM. Where the house has not been kept up——

Mr. BARRY (interposing). But would you say that in the majority of cases some improvement must be done?

Mr. BRIGHAM. I should think so, speaking offhand, without investigating.

Now, to close, I would say that failure to permit insurance on existing construction, will, in my opinion, stop the normal sale of housing from one income group to a lower-income group, and will be unfair to the people of limited means who want to purchase better houses, and will defeat the purposes of the act.

Mr. WILLIAMS. Mr. Brigham, do you consider it sound policy for the lending institutions to lend on 80 percent of the appraised value of the property?

Mr. BRIGHAM. Without insurance?

Mr. WILLIAMS. Yes.

Mr. BRIGHAM. No; we would not make that sized loan. It would depend somewhat on the cycle that you were in. If you should start with 80-percent loans now, with the present cycle that we are going into, a period of recovery, you would come out better than you did with a 50-percent loan in 1926 to 1929.

Mr. WILLIAMS. Well, if it is not sound policy to make those loans without insurance, is it sound with the insurance?

Mr. BRIGHAM. You have a fund accumulated in the hands of the Federal Housing Administration to meet losses. Now, if we are going into a period of recovery, of higher real-estate values, that fund will accumulate and probably will be a very sizable fund, and will be ready to meet losses when a period of depression comes.

Mr. WILLIAMS. Could not the lending institution add that premium to their loan and accumulate a reserve to take care of the same thing?

Mr. BRIGHAM. No; as I said before, I think our business, the business of any one institution, would be too small, and the setting up of an organization to make the inspections, and so forth, would be too expensive.

Mr. WILLIAMS. But putting them altogether it would cover the field, would it not, just the same?

Mr. BRIGHAM. All the lending institutions?

Mr. WILLIAMS. Yes.

Mr. BRIGHAM. Well, that would be a pretty difficult matter.

Mr. WILLIAMS. What disturbs me somewhat is to say that it is sound policy, on one hand, and not sound policy, on the other. In other words, it looks to me that the lending institution is not assuming the responsibility and the danger of loss, but that is taken by the Government.

Mr. BRIGHAM. Well, we have 175,000 people with life-insurance policies in our company, and that distributes the risk over that number of people. So we are accumulating reserves sufficient to meet any contingency that may arise. We could not insure 10 people or a thousand people safely, because the mortality might be all out of line, and we would be bankrupt. The greater spread you have, the safer you are.

Mr. WILLIAMS. But I come back to my original proposition: If all the lending agencies would make the loans, they would cover the field just the same, would they not, as they do now with the insurance?

Mr. BRIGHAM. Well, in the first place, you would not be permitted by law to do it, and, in the second place, it would be a tremendous job to ever get the lending agencies together, and I presume your monopoly committee would be one of the first to call us to account for doing it.

Mr. WILLIAMS. You were not able to make those loans on account of State laws before this legislation passed, were you?

Mr. BRIGHAM. And we had special legislation authorizing us to make them with insurance.

Mr. WILLIAMS. And if it was a sound policy you could get the legislation suggested?

Mr. BRIGHAM. You mean without any insurance?

Mr. WILLIAMS. Without insurance.

Mr. BRIGHAM. I do not think you would have a chance to get that kind of legislation.

Mr. WILLIAMS. You do not think it would be possible to get? And you do not think you want it, because you do not consider it sound policy to loan up to 80 percent?

Mr. BRIGHAM. Life insurance is such a vital thing—you take this 175,000 people with average policies of a little over $3,000, and it is pretty vital to them, in case of death or old age, that we are able to pay that insurance. We cannot take risks.

Mr. WILLIAMS. Of course, that is it, the Government is taking the risk.

Mr. BRIGHAM. And providing, through its insurance premium, and the organization that it sets up, to see that it does not get loans below a certain standard. It is making provision to take care of those risks.

Mr. WILLIAMS. I understand that you have over $27,000,000 residential loans insured?

Mr. BRIGHAM. We have that amount on our books.

Mr. WILLIAMS. What part of those were made first hand, and what part of them were bought, if any?

Mr. BRIGHAM. Practically all were bought except—that is, they were originated by correspondents, with the exception of those originated in our branch offices.

Mr. WILLIAMS. What do you mean by "originated from correspondents?" Just illustrate that.

Mr. BRIGHAM. Well, a mortgage company, a bank, a real-estate company, and I think we have had two building and loan associations on our list of correspondent institutions. I do not have the list here with me. I did not come with the idea of testifying about that.

Mr. WILLIAMS. They are, in a way, your agents out in the field?

Mr. BRIGHAM. Yes.

Mr. WILLIAMS. They get these loans. They make the loans, for instance, the bank or the building and loan association?

Mr. BRIGHAM. They negotiate them and send them to us. Some of them would make them for their own portfolio and keep them if we did not take them, and some of them send them to us and we pass on the papers before we take them. They make the collections monthly. We are located in one State. These mortgages are in 26 States and the District of Columbia, and it is necessary to have someone on the spot to make the collections.

Mr. WILLIAMS. Do you pay them any brokerage fee for that service?

Mr. BRIGHAM. We allow them three-fourths of 1 percent for the service. We have paid no premiums for loans.

Mr. WILLIAMS. And those agencies of yours make separate inspection of the property, do they?

Mr. BRIGHAM. They make an inspection of the property.

Mr. WILLIAMS. They make appraisals of the property?

Mr. BRIGHAM. Yes, sir.

Mr. WILLIAMS. How does that correspond with the appraisal that is made by the F. H. A.?

Mr. BRIGHAM. In value?

Mr. WILLIAMS. Yes. How do they run together, or is there a wide variation between those appraisals in different sections of the country?

Mr. BRIGHAM. I would have to guess at that, because I do not recall exactly. They vary, but there is not a great variation. There is some variation.

Mr. WILLIAMS. You do not have in mind the facts sufficient to give us that situation with reference to the appraisal by the F. H. A. and your own agents.

Mr. BRIGHAM. No; I have not.

Mr. WILLIAMS. As to whether one of them is higher or lower than the other?

Mr. BRIGHAM. I think they might vary either way.

Mr. WILLIAMS. In other words, it has been your experience, has it, that there has been a rather conservative appraisal on the part of the F. H. A. officials?

Mr. BRIGHAM. Yes, sir; in general.

Mr. WILLIAMS. How many of these loans that you have had, or have now, run below 80 percent in valuation of the property?

Mr. BRIGHAM. Well, I cannot answer that, except to guess. It depends, I should say, somewhat on the age and circumstances of the borrower and the age of the property. On an existing loan they might not want to take full 80 percent, and if the man was along in years we might not want to go so high.

Mr. WILLIAMS. Well, is it a fact that a substantial amount of these loans that have been made have been within the 66⅔-percent limit?

Mr. BRIGHAM. No; I think very few.

Mr. WILLIAMS. Most of them are above that.

Mr. BRIGHAM. Yes, sir.

Mr. WILLIAMS. I think that is all I have.

Mr. GIFFORD. I want to ask one or two questions, because we are facing a problem here. The New York Life Insurance Co. made a loan of 80 percent on a $2,000,000 property. Now, would your agents find out the principal and architect, if an architect himself and a contractor himself made application for $2,000,000, and they bought the land at $35,000, and then put it in for $171,000, because the raw land would be so valuable whenever a house was put on it, and then the fee of the architect himself would be probably 10 percent, would it not?

Mr. BRIGHAM. That seems reasonable. That would be $200,000.

Mr. GIFFORD. That would be $200,000 on the $2,000,000 property. Then if the contractor himself should go ahead and O. K. his own work, and a plumber gets paid by the people who O. K. his own work——

Mr. BRIGHAM (interposing). May I ask what that O. K'ing is on?

Mr. GIFFORD. The city has a plumber to inspect the plumbing in these buildings, but the plumber who did the work inspected his own work and got paid for it by the city.

Mr. BRIGHAM. Well, the F. H. A. would also have an inspector—resident inspector—there to check all this construction, and I assume the New York Life would have another man to inspect the property.

Mr. GIFFORD. But this is being done right along. How can anybody help it? Is it not all right for the architect to put in and get a loan on his own efforts?

Mr. BRIGHAM. Well, Mr. Gifford, you spoke to me about that.

Mr. GIFFORD. I just hinted at it. When we unfold these things in their true light it is rather shocking.

Mr. BRIGHAM. I understand this is the situation with reference to that St. Louis loan.

Mr. GIFFORD. Never mind the St. Louis loan.

Mr. BRIGHAM. May I just——

Mr. GIFFORD (interposing). No; I would rather put it this way: You be the architect and I will be the contractor, and we buy some land for $35,000 and put it in at $200,000. Nobody cares, apparently.

Mr. BRIGHAM. Did not your act provide that F. H. A. shall consider the value of the land after the improvements are put on it?

Mr. GIFFORD. No; the F. H. A. write us that they do not intend to loan more than cost of construction, but that 20 percent should be and probably would be taken care of in the land and general expenses surrounding it.

Mr. SACKS. The witness says he has the facts on the St. Louis loan. I think it would be interesting to get that in the record.

Mr. GIFFORD. If he has the facts.

Mr. BRIGHAM. As I understand it, the St. Louis loan was the one at $2,000,000.

Mr. GIFFORD. There was another one, a 2½-million loan.

Mr. BRIGHAM. This one, the figures I have, are on the $2,000,000 loan, and the amount insured was $1,600,000.

Mr. GIFFORD. How did you happen to get that?

Mr. BRIGHAM. I was interested, because you talked to me about it and I wanted to find out about it. [Laughter.]

Now, we are not only making loans under section 203 but under section 207, and I am just as much interested as you are to have this done right because we are putting our money in. As I understand, the insurance company put in $1,600,000 into that loan.

Mr. GIFFORD. The life-insurance company.

Mr. BRIGHAM. They have first claim on that property. Now, there was $400,000 made up as follows: This land value you mentioned, the architect's fees, $125,000 in cash, and $45,000 on the improvements to the approaches.

Mr. GIFFORD. Did you look up where the cash came from?

Mr. BRIGHAM. No; I do not care where it came from, because all these, this $400,000, is a secondary claim on this property.

Now, let us look at the position of the Government. The New York Life can turn that property over to the Government for 98 percent of its $1,600,000 if the loan becomes delinquent. Now, the Government gets the New York Life investment of $1,600,000, less 2 percent, and these other claims are secondary. These people—the architect has got to have pay in order to live. This land is worth something, but they do not get anything for it unless the loan is a success. All they get is stock.

Mr. GIFFORD. You are interested in this property?

Mr. BRIGHAM. I am interested in these section 207 loans. We have a commitment of $15,000,000 in them, and we have sent our own inspector to visit these sites, and we have checked up the plans, and we are satisfied that the F. H. A. is doing a good job on it.

Mr. GIFFORD. You are satisfied with land that cost $35,000 to $40,000, to put it in at $171,000? That is all right?

Mr. BRIGHAM. Well, that would depend on circumstances. I think if the builder of one of these projects goes out and buys land by the acre and puts on these improvements you have got to have roads constructed, you have got to have water and sewer connections, and you have got to landscape this land.

Mr. GIFFORD. That comes in the specifications.

Mr. BRIGHAM. The point is, Mr. Gifford, that that land in that immediate vicinity appreciates in value because you have got a development there. In New York State, as I understand it, a law has been passed permitting insurance companies to invest a certain proportion of their assets in housing, and one insurance company, according to the press reports, is going to put $50,000,000 into structures of this kind. They have got to pay the architect. They have got to buy the land. They have got to put in this cash, and they have no insurance. Now, I think the Government's position is a great deal better than the position of an insurance company that operates under that New York law.

Mr. SACKS. Mr. Brigham, assuming that this land is purchased at $35,000, and was put in at $171,000, if there was a loss, the Government would then take over the property at $1,600,000 less the 2 percent?

Mr. BRIGHAM. Yes, sir.

Mr. SACKS. And would have the land thrown in, so that if the land is only worth $35,000 it would not make any difference?

Mr. BRIGHAM. They would get the architect's fees for nothing.

Mr. SACKS. They would get the architect's fees for nothing.

Mr. BRIGHAM. I do not believe anybody can hire an architect for nothing.

Mr. GIFFORD. I think that is probably right. I think I would like to go into that.

Mr. BRIGHAM. We would like to have you for a sponsor, Mr. Gifford.

Mr. GIFFORD. But I want to ask you this: we should not be suspicious; we should not look at these things in that way. Even if architects and builders were constantly doing these things as patriotic citizens, they would naturally be suspected, would they not?

Mr. BRIGHAM. Well, architects may have faith in a project, and they get stock, and if it is a successful enterprise that stock is going to be valuable to them.

Mr. SACKS. It might be worth the $400,000.

Mr. BRIGHAM. Yes; and more too.

Mr. GIFFORD. But the trouble is, Mr. Brigham, I am not only asking these things because of the facts about it, but they are carried on in places that are already overbuilt, where the saw and hammer is not needed and is not going. That is where this movement generally comes to, to get somebody at work where it is already overbuilt. In the St. Louis case that I spoke of, the evidence we have is that it is already overdone there. The real-estate board knows that, of course.

Mr. BRIGHAM. Well, I do not know about St. Louis, because we do not have any project there; but where we have committed ourselves on large loans we have been satisfied by examining the records of the F. H. A. office that they have made a pretty thorough investigation of rental conditions in the area, and they have not committed themselves until they are satisfied that their properties will rent for enough to pay the service on the loan and leave a margin.

Mr. SACKS. Have you read any statistics lately as to whether or not in this country there is an overproduction of houses?

Mr. BRIGHAM. I have read all kinds of statistics.

Mr. SACKS. I mean from your viewpoint and investing in real estate you must have checked up in areas in which you lend, and have you found many areas where there is overproduction?

Mr. BRIGHAM. There are some areas.

Mr. SACKS. Have you checked St. Louis?

Mr. BRIGHAM. No.

Mr. SACKS. Do you have many loans there?

Mr. BRIGHAM. All we have in St. Louis is a small number of 203 housing loans.

Mr. BARRY. Mr. Brigham, you cover a number of States in your activities, and I assume you are familiar with the fact that there are States where the mortgage moratorium was in force?

Mr. BRIGHAM. Delaware.

Mr. BARRY. Do you not think that when the moratorium period has expired the refinancing of those properties is going to be a serious problem? If the people in New York State have to pay the principal, do you not think it will be important than to have an F. H. A. agency that will come into the picture, protecting the market?

Mr. BRIGHAM. Yes; I think that is true.

Mr. SACKS. That would be a good reason for the continuance of insuring existing mortgages?

Mr. BRIGHAM. Yes, sir.

Mr. WOLCOTT. That contemplates, Mr. Brigham, the continuance of insurance on existing loans?

Mr. BRIGHAM. Yes, sir.

Mr. WOLCOTT. That you are in favor of?

Mr. BRIGHAM. Yes, sir.

Mr. WOLCOTT. Do you countenance the writing up of vacant acreage 400 percent as a means of contributing to the 20 percent required under the act?

Mr. BRIGHAM. Well, as I understand the act, it requires the Federal Housing Administration to take into account what the value would be after these improvements are put on.

Mr. WOLCOTT. Well, assume that a clerk in the office of the promotion concern buys a piece of property for $70,000, a vacant piece of property. The next day she resells it to her boss for $300,000. Do you countenance that practice in respect to F. H. A. insured loans.

Mr. BRIGHAM. I would not think that was desirable practice. I should think that if it was bought for $70,000, the purchaser had better state what he paid for it and not try to camouflage the operation.

Mr. WOLCOTT. Assuming that an individual home owner has a lot in an urban or suburban locality for which he paid $74,000, do you think he would be justified in writing that up for the purpose of

offsetting the 20 percent which he is required to put in against this loan?

Mr. BRIGHAM. No; I should think it would depend upon what the value of lots was in that locality.

Mr. WOLCOTT. Well, in the example I used, assume that he paid the value of the property blank hundred dollars.

Mr. BRIGHAM. At the time?

Mr. WOLCOTT. Yes.

Mr. BRIGHAM. And other lots were selling——

Mr. WOLCOTT (interposing). For a like amount.

Mr. BRIGHAM. Sometimes people have to sell lots to get out what money they can.

Mr. WOLCOTT. Assuming that he paid the value of the lot, do you think the F. H. A. should countenance an individual owner writing up the value of his lot 300 percent and using that against the 20 percent?

Mr. BRIGHAM. If that was a fair, normal value for land in that locality, I would say it ought to go in at the fair, normal value.

Mr. WOLCOTT. You are evading my question.

Mr. BRIGHAM. No, sir.

Mr. WOLCOTT. I am assuming, for the purpose of the question, say, that $600 in the first instance is a fair value. He paid that—it does not make any difference what the amount is—and he writes it up 300 percent for the purpose of putting the property in against this 20-percent requirement. Do you contenance that practice on the part of individuals?

Mr. BRIGHAM. I should say from our point of view that we would send an inspector who would canvass the value of land in that locality, and we would put on the value of the land what lots were selling for normally in the locality.

Mr. WOLCOTT. All right. Now, assume that you come in before he ever buys the lot, and you find that this lot is worth $600, and he pays that amount.

Mr. BRIGHAM. When we made our appraisal we would put the land in at $600.

Mr. WOLCOTT. Do you countenance his writing that up to $1,800 for the purpose of avoiding this 20-percent down payment?

Mr. BRIGHAM. That is, the owner?

Mr. WOLCOTT. Surely you do not mean that?

Mr. BRIGHAM. The owner?

Mr. WOLCOTT. Yes; the owner.

Mr. BRIGHAM. No; I would not countenance that.

Mr. WOLCOTT. Why do you countenance it, then, in respect to these building units? What difference is there between countenancing it on the part of a multiple-dwelling project and an individual project? It is an investment. He gets a return from the investment.

Mr. BRIGHAM. Well, the multiple-dwelling project is a large project. Some of them have 5 acres of land in them.

Mr. WOLCOTT. What difference is there in principle?

Mr. BRIGHAM. There is a lot of difference, because you put a development of that kind in a locality, and you have raised land values in that locality.

Mr. WOLCOTT. If I invest $5,000 or $6,000 in a home, that is just as much an investment for me as though I invest $5,000 in bonds

incident to the erection of an apartment house. I cannot see the distinction. In fact, I think there is a distinction in favor of the individual home owner, because there is a certain sentimental value connected with that home which is built which is not apparent in connection with the bonds which are purchased.

Mr. BRIGHAM. After this large development was put on and completed and in operation, if you tried to buy some land adjacent to it at the price these original purchasers paid, I do not believe you could do it.

Mr. WOLCOTT. I have had some experience along this line, and I do know, and you know—of course, we all know—that a lot alongside of a house that has just been built, a new house, does not raise 300 percent in value.

Mr. BRIGHAM. It raises it some.

Mr. WOLCOTT. It raises some, to be sure, but it does not raise 300 percent in value.

Mr. GIFFORD. Can I give this illustration: I own a block of land. We have a store and a movie and a clubroom overhead—the general thing in a small community. It pays a fairly good rental. The value of the lot next to us, which I also own, has just been killed. Not even a resident wants to build beside that store, and certainly there is no room for any more stores. That land is valueless. These letters that I have in my files from St. Louis say that a large apartment house in that neighborhood has driven out a certain class of people who would go there.

Mr. BRIGHAM. I can imagine, of course, that building would adversely affect land in the vicinity sometimes, but a large development would bring community stores, if it was large enough, and I should think lead to quite a development in the area, better roads, sewer connections, and all those things.

Mr. WOLCOTT. Mr. Brigham, have you made any survey as to when we might reach the saturation point in home building if we keep up our present stride? I have been told of some projects built recently where there are over 100 brand new homes that are not occupied because they cannot rent them. We were told here yesterday that Detroit is very much overbuilt. From my observation I would conjecture that the District of Columbia and surrounding territory is becoming very much overbuilt and somebody is going to take an awful wallop one of these days. I have not made any survey of it, but I would conjecture that that is true, from my observation. Have you made any survey at all with respect to the situation?

Mr. BRIGHAM. We take into consideration, when we go into a place, what the economic condition is, whether it is stable or not.

Mr. WOLCOTT. I mean, have you made any survey of the country at large?

Mr. BRIGHAM. No; not the entire country. We take the cities where we make loans. In Detroit we have made no loans.

Mr. WOLCOTT. What is your situation in California, where I understand about 20 percent of the F. H. A. mortgage loans have been made?

Mr. BRIGHAM. We have very few in California.

Mr. WOLCOTT. Have you made any surveys there to determine the need for additional homes?

Mr. BRIGHAM. In two or three cities we have made surveys.

Mr. SACKS. I can give you this information about Philadelphia. In Philadelphia last year, 1,900 new homes were built and there were 1,300 existing homes demolished. Now, there was only a spread of 600 homes. That is the situation in Philadelphia. There were 1,900 new homes built, but there were 1,300 to offset it that were demolished.

Mr. WOLCOTT. What I am getting at is whether you have an accurate picture, as a whole, to determine whether there is any justification for increasing the authorization of the Federal Housing Administration. They have come in here and asked us to increase their authorization from 3 billion to 6 billion, claiming that, this year they would do twice the amount of business that they did last year, and next year they would do twice the amount of business they will do this year, and they conjecture that 6 billion will be their ceiling, without giving us any definite information concerning it. Now of course, if they keep doubling their business during the next few years, they are bound to reach the saturation point somewhere, and I wonder if you have made any survey as to the needs of new construction throughout the United States, as a help to us on whether we should increase this authorization.

Mr. BRIGHAM. Not throughout the United States. I should say generally it would depend on the economic conditions in the future. If you have recovery, there are a lot of people in this country who want better homes, and if they have the means to buy them—second-ownership homes, third-ownership homes, or new construction—they will buy them. If they are out of work and do not have the means, then they will get along with what they have, perhaps double up—a lot of families double up.

Mr. WOLCOTT. That being the case, if their economic situation was such as to warrant it, they would build regardless of whether they got an insured-mortgage loan, would they not?

Mr. BRIGHAM. They would build a great deal more if they could get an insured mortgage, because they would not have to pay so much for their money.

Mr. WOLCOTT. Is not this true, that building usually follows an increase of employment due to an upturn in business, but never precedes it?

Mr. BRIGHAM. Well, I do not have the data to answer your question accurately. It might be so.

Mr. WOLCOTT. Well, unless a man is convinced he is going to be able to meet his payments he is not going to build a new home, and he will not be able to meet his payments unless he has a job, and unless business conditions are good there is no assurance that he is going to have a job. That is all true, is it not?

Mr. BRIGHAM. A man has to pay rent if he has quarters. Now, if he can buy a home and pay just about what he can afford to pay for rent, for his interest, and his amortization payments, plus his taxes and insurance, he would rather buy a home—and the F. H. A. gets the monthly payments down to about that figure. Now, we do not make a loan to the man whose monthly payment exceeds what we think his income will permit him to pay without undue sacrifice.

Mr. WOLCOTT. What about his depreciation, repairs?

Mr. BRIGHAM. Those he will have to make himself.

Mr. WOLCOTT. Do you not think he should take that into consideration when he makes the loan?

Mr. BRIGHAM. A lot of these people paper their own rooms, do their own painting, do their own repair work.

Mr. WOLCOTT. A lot of them do, but I do not, and you probably do not, and I think probably 80 percent of the home owners do not do that. If I started in to paper a room I hate to think what the result would be.

Mr. BRIGHAM. Well, you are in the higher-income group.

Mr. WOLCOTT. At present I am—but I am not so sure about that either. [Laughter.] Gross, perhaps, but net I consider myself in the extremely low-income group; and if I knew how to paper a room I probably would do it; but I do not know how to do it, and I think I am situated the same as 80 percent of the other home owners are; and when I buy a home I anticipate that in the course of a few years there must be repairs to that home. If I do not think I can meet those repairs and pay for them when they become due, that is not the thing for me to do, is it? I know homes in my home town, very desirable five-room bungalows, which are always in demand for a man and his wife and perhaps one or two children. Those five-room bungalows are profitable homes in the Middle West. They rent at $20 to $35 a month. The owner at the present time gets a return of about 1 percent on his investment. Surely it is advisable for a man in the low-income brackets to rent a house for $20 or $25 a month without any obligation to maintain the property than it is to make a down payment and pay these monthly amortization payments, is it not?

Mr. BRIGHAM. Well, that would depend a little on the basis of the individual. Personally, I would not be happy in a home that someone else owned.

Mr. WOLCOTT. That is why I am so anxious about this saturation point, because when we reach the saturation point there is going to be a decrease in demand for houses, and I think we had better take into consideration that all of this indebtedness that we are creating must be liquidated in some form or other. If it is not liquidated by the home owner keeping up his payments, then the Federal Government has got to liquidate that loan, and there is a potential, contingent liability here which, frankly, I am very much alarmed about.

Mr. BRIGHAM. Well, I have recited our experience out of 5,770 loans, 16 foreclosures and 13 that have been entirely completed. We have $68,000 in debentures.

Mr. WOLCOTT. What would happen to the real-estate market if the Government-bond market had dropped off 2 percent with the calling of bank loans?

Mr. BRIGHAM. What would happen to us?

Mr. WOLCOTT. What would happen to the real-estate market?

Mr. BRIGHAM. If the Government-bond market went down 2 percent?

Mr. WOLCOTT. Yes.

Mr. BRIGHAM. I would not say it would affect it materially.

Mr. WOLCOTT. But we say that it will affect it materially. This is a broader picture than merely the construction of homes. The loan that that home owner might have in his bank would immediately be called. To offset that he would not have the wherewithal, and we are told that a drop of 10 percent in the value of Government bonds would break every bank in this country because of their excessive holdings. That situation does dovetail, and we have got to take it into consideration.

Mr. BRIGHAM. How could the borrower on an insured loan be asked to pay it off?

Mr. WOLCOTT. He has to meet his payments. If he could not meet his payments the Government would have to take it, and it would affect the real-estate market, it would affect all markets. If we went into a slump, as we did in 1929 and 1930, when real-estate values went down so that you could buy almost any piece of property for any amount you wanted to pay for it, where would the Government be sitting?

Mr. BRIGHAM. Well, that depends on when it comes. If it came 10 years later——

Mr. WOLCOTT (interposing). It has been our experience that it comes more often than once every 20 years, except when we have a war to bolster it up.

Mr. BRIGHAM. If this insurance fund runs into a very large figure, the Government has got the money to offset any losses.

Mr. WOLCOTT. What money has the Government got to offset any losses?

Mr. BRIGHAM. By collecting this insurance premium from all these borrowers.

Mr. WOLCOTT. Now, Mr. Brigham, you apparently have not gone into this question very thoroughly, because it has been shown here by the testimony of F. H. A. officials that the administrative costs of the F. H. A. greatly exceed the amount which they are receiving as premiums, so they have virtually no insurance fund to offset these losses.

Mr. BRIGHAM. This is a new project, and of course it costs money to set up a new project.

Mr. WOLCOTT. Of course, it does. Is your company loaning on the assumption that there is being created an insurance fund to take care of losses?

Mr. BRIGHAM. Not entirely, but that is an element.

Mr. WOLCOTT. Does that influence you at all?

Mr. BRIGHAM. To some degree, yes.

Mr. WOLCOTT. To what degree?

Mr. BRIGHAM. It is not material, as far as the value of the debentures is concerned, but that is the first obligation on that insurance fund.

Mr. WOLCOTT. Is it not true that you do not take into consideration at all any fund which the Government is setting up, but you do know that the Government is responsible, regardless of where it gets its money, and will pay these losses?

Mr. BRIGHAM. Yes.

Mr. WOLCOTT. That is the answer to it. You are not interested in the insurance fund as an investor. You are not interested in the insurance fund, but you know that the Government guarantees these mortgages and that the Government is going to meet those obligations, even if it has to sacrifice the credit of the United States to pay them, do you not?

Mr. BRIGHAM. Yes, but I think that if the F. H. A. continues and is successful, the insurance fund in a period of normal times is going to amount to quite some money..

Mr. WOLCOTT. What would you think—have you made any study as to what would be an adequate insurance premium to cover potential losses?

Mr. BRIGHAM. No.

Mr. WOLCOTT. Do you think a quarter of 1 percent is sufficient?

Mr. BRIGHAM. No; I think one-half of 1 percent is fair.

Mr. WOLCOTT. What do you base that on? You say you have made no study of it. How can you say that one-half of 1 percent is sufficient?

Mr. BRIGHAM. You cannot make any actuarial calculations, because you do not know what the economic conditions are going to be.

Mr. WOLCOTT. Can anyone make actuarial calculations?

Mr. BRIGHAM. I do not think so.

Mr. WOLCOTT. That is all guesswork?

Mr. BRIGHAM. Yes.

Mr. WOLCOTT. So we are just going along, assuming that nobody knows where they are going on this proposition?

Mr. BRIGHAM. You can tell by experience as it develops from year to year.

Mr. WOLCOTT. We have had 4 years' experience and have gone in the hole.

Mr. BRIGHAM. Well, you have had your initial expense in setting up your organization.

Mr. WOLCOTT. The R. F. C. loaned them the money for that purpose, and they have not paid the R. F. C. back. I am told by good authority that the Reconstruction Finance Corporation loaned them the money to set up this outfit and they have not paid the R. F. C. back.

Mr. BRIGHAM. It costs quite a lot of money to set up an organization.

Mr. WOLCOTT. Of course it does, and do you not think it should be standing on its own feet, the same as your insurance companies?

Mr. BRIGHAM. I think it will.

Mr. WOLCOTT. When?

Mr. BRIGHAM. I do not know.

Mr. WOLCOTT. Well, we do not either.

Mr. FORD. Mr. Wolcott, if this insurance company were called on today to meet all of its policies it could not do it, could it? No other insurance company in the country could.

Mr. WOLCOTT. How much of a loss has F. H. A. sustained right now, without going into the Treasury of the United States?

Mr. FORD. Well, consider——

Mr. WOLCOTT (interposing). How much? Tell us how much, if you know.

Mr. FORD. I do not know how much. Can you tell us?

Mr. WOLCOTT. $17,000,000, I think, is the figure.

Mr. FORD. And they have taken over the property to offset that.

Mr. WOLCOTT. They have got $1,700,000,000 of contingent liabilities. If anything happened to this real-estate market, that $17,000,000 would go mighty quick.

Mr. FORD. What is the basis for something happening in the real-estate market? Now, let me give you a picture of that.

Mr. WOLCOTT. Can you assure us that nothing is going to happen to the real-estate market?

Mr. FORD. I do not think much more can happen to it than what has already happened, considering its present situation. In 1929 there was a drop of probably 50 to 60 percent in values. Now we are operating on that basis, that low basis; and at the present time,

with all of this F. H. A. building that has been going on, I cannot find in my section of the country—where the booms are most likely to appear and real estate go up—I cannot find that real estate has appreciated to any material extent. It is about on the normal with 1932. When you sell a piece of property you get just about the same for it as you did then and not much more. So there has been no boom and this is not tending to make a boom. There may be in one or two little isolated sections, but as a general thing over the country the realty market is stable, and I think any man that has made a study of the national real-estate market will come to that same conclusion, that there is no appreciable rise in property values that is of a dangerous character over the country.

Mr. SACKS. Furthermore, under the F. H. A. plan, if a slump does come, the effect would not be as great as it would be in the hands of private individuals, because there the obligation could not be met because the rate would be too high, because here they take into consideration the earning power of the individual in fixing the payments.

Mr. GORE. Did I understand you to say just now that from the wealth of your experience you are of the opinion that one-half of 1 percent premium would be sufficient to create a reserve to protect against any future hazards?

Mr. BRIGHAM. I think that has got to be developed by experience. In a normal real-estate market over a period of years you accumulate quite a large sum of money at one-half of 1 percent. If you strike a depression and real estate values go down, it may not be enough. Nobody can tell. I think you have got to develop that by experience. I think an insured loan with monthly payments will stand up better than the old-time loan where the payments are quarterly or annually, because I think the family with an insured loan will reason this way: "We have got to live somewhere. Our monthly payment is not much more than we will have to pay for rent; therefore we will deny ourselves and keep our home as a last resort." And they will protect that loan where they would not protect another, where they would let the interest run for 6 months or a year, until it got up to $500 or $600, and then they would say: "We never can pay that. We might as well let it go."

Mr. GORE. You are of the opinion that it should be self-supporting?

Mr. BRIGHAM. I think that is desirable. Although the Government is subsidizing the Federal land banks, so that the farmers get a rate of 3½ percent, and I think you will find they have spent considerable money on the land banks, and I think the encouragement of home ownership in the urban centers is just as valuable to the country as the encouragement of farm ownership in the rural sections.

Mr. GORE. Then, if I get your position, it is this: That as soon as feasible it should be self-supporting, but that it could not be made so in its inaugural period.

Mr. BRIGHAM. You set up a new system, start anew, set up a force, start without any loans, and it has taken time. Volume is going up, and your insurance premiums are increasing. I do not have the figures to show it, but you can get those from the Federal Housing Administration.

Mr. GORE. Now, with that in mind, I would be interested to know what your opinion is on title I of this act, if you are familiar with that.

Mr. BRIGHAM. We have made no loans under title I, and I have no opinion about it.

Mr. GORE. You have made no study of that?

Mr. BRIGHAM. No, sir.

Mr. GORE. One more question, Mr. Brigham. From your study of this St. Louis project, to which frequent reference has been made, do you see anything reprehensible in that?

Mr. BRIGHAM. Not on the information that I have, and as far as the Government's position is concerned, it is going to depend on how that project rents. If that fills up with tenants at the estimated rental, or considerably less, the Government will not have any loss.

Mr. BARRY. Mr. Brigham, referring back to Mr. Wolcott's question, in talking about contingent liability and terrific slumps, after all we have the Federal Deposit Insurance Corporation that is in about the same category—I mean, if we go into a terrific slump that would run to a tremendous amount of money.

Mr. WOLCOTT. That is right. There is no question about that.

Mr. BRIGHAM. The Government can hold these properties through the slump until recovery comes and then get its money out.

Mr. BARRY. And it is even more secure, in a sense, than the bank deposits.

Mr. SACKS. And if that came about, and if there was no F. D. I. and no F. H. A., and a slump came, I think it would be even worse for the citizens of this country, because what banks could liquidate immediately and what mortgages could be paid off immediately? I think the situation would be even worse.

Mr. WOLCOTT. In that particular you are likening this to the F. D. I. C. The F. D. I. C. carries itself. Here the other day a bank closed its doors with $27,000,000 of deposit liabilities. In 2 or 3 days—a surprisingly short period of time—the F. D. I. C. was in there and they had their men up at the tellers' windows paying off every dollar of deposit out of their reserve.

Mr. SACKS. How long could that last if there was a general break in the banks? How much could they pay?

Mr. WOLCOTT. The purpose of the F. D. I. C. is to prevent just such things as that. If the F. D. I. C. had not done that, there would probably have been 50 other small banks that deposit in that large bank that went along with it, and we would have had a crash, and the F. D. I. C. was set up primarily for the purpose of preventing in the banks just what might happen to the real-estate market. Now, what is there in the Federal Housing Administration to guarantee against a slump in real estate, as there is against the withdrawal of deposits from a bank?

Mr. GORE. Mr. Wolcott, your illustration is not apropos. The run on the bank is not similar to the decline in real-estate values.

Mr. WOLCOTT. Not in the same manner. It comes about more slowly, but depreciation in the ability of the home owner to maintain that home operates the same as the fear on the part of the depositor that he is going to lose his money, and he gets out from under just as effectively under those circumstances as if he went down to the bank and drew out his three or four hundred dollars, his life's savings, which he will not do under the F. D. I. C., but he will abandon his home. If his payments on his mortgage have been no more than the payment of rent he has got his money out, he has got his value out of it. He has got nothing in there except sentiment.

Mr. GIFFORD. I do not think any run on a bank is ever quite as fast as the fall in real-estate values when the break comes.

The CHAIRMAN. The Federal Deposit Insurance Corporation is operating at a profit now. In the failure up in New Jersey the other day, the records show that we may expect to get back 75 percent of disbursements out of the assets of the bank. Seventy-five percent is the amount collected from assets since the Federal Deposit Insurance Corporation began operations. Prior to that time, under the administration of national banks, the realization from assets averaged a little above 60 percent.

Mr. GIFFORD. Well, I want to say that the F. D. I. C. has been a godsend to my people. They have put their money in the bank in order for it to be safe, and they have kept it there. They will not work it.

Mr. BRIGHAM. Is it not true, Mr. Chairman, that the F. D. I. C. started with an assessment on several billion dollars of existing bank deposits? The F. H. A. started from scratch and had to build up its business, and it is building up gradually; and at the outset it had an assessment on nothing. It has no property to assess.

The CHAIRMAN. Another thing, in my State the predictions of evil to come that are being indulged in here with reference to the Housing Administration are nothing compared to the predictions of failure that were heard on every hand regarding the insurance of bank deposits. The records have shown just exactly the opposite. The American Bankers' Association, when they met in national convention in October 1933, following the passage of the act which was to make the $2,500 insurance for each depositor effective on the 1st of January following, denounced the act as unwise and destructive, and called upon the President of the United States not to put the law into effect. When the American Bankers' Association met in Washington a year later there had not been a single bank failure among the banks that were members of the Federal Deposit Insurance Corporation, but the American Bankers' Association forgot it. They did not mention it.

Mr. WOLCOTT. In view of what transpired this morning, I want to make my situation clear with respect to the F. H. A. Against the advice of some of my Republican and Democratic colleagues I went to bat for the F. H. A. when we wrote the law.

They thought it was somewhat deplorable that I, having come from Vermont stock, should have forgotten my early training sufficiently to have undertaken such a radical departure from common sense, but I nevertheless endorsed F. H. A. I went along with title I. I went along with the insurance of existing mortgages. Last year I opposed the 90 percent insurance because I was told by what I considered responsible bankers that it would destroy the whole act, that the banks would not make the loans. I am frank to admit now that I was wrong in acting on their advice, because those same bankers come back now and apologize to me for the misinformation that they gave me last year in that respect. So I do not see any reason why I cannot go along with title I. Individually, speaking for no one else, I am in favor of the continuance of the F. H. A. and giving them all that they need. I am in favor of the insurance of existing mortgages, because I do not think that the one will be effective without the other. I am in favor of the modernization loans, because I feel that if a man and his wife own their home in the neighborhood where they have lived for years and years, there is no particular reason why they should be forced out of that neighborhood merely to get a modern home.

Now, I am going along with modernization, title I. I hope that we may be able to rewrite it in some satisfactory form. I think it should stand on its own feet; that it should have an insurance fund behind it.

I am going along with the insurance of existing mortgages, the continuation of title II, and everything pertaining to it. But why has not this committee reported this bill out a week or 10 days ago?

Because of the rackets incident to F. H. A. construction. Now, F. H. A. does not want that condition to continue any more than this Congress wants it, any more than you want it, but I think this committee, as F. H. A. has since been doing, has a duty to clean out these rackets, and the Senate committee has taken that attitude, and this committee has taken the attitude that if we can clean up these rackets which we are unconsciously subscribing to, then it is our duty to do it, and I am going to offer an amendment on the floor, if nobody else does, to make it a felony for anybody, making application for an F. H. A. loan, to write the value of the property up for the purpose of defrauding this Government. We are going to see where we stand on that situation. There are bugs in this F. H. A. which might come back to bite us one of these days, and I want to kill those bugs before they do bite us.

Mr. BRIGHAM. Mr. Chairman, may I make one final observation? The ability of a home owner to sustain his loan during a period of crisis, a period of depression, is going to depend somewhat on the rate he has to pay. If you shut out life-insurance funds to the home owner by anything you do here, you are going to make him pay a higher rate.

The CHAIRMAN. I want to thank you for your statement, Mr. Brigham. It has been very helpful to the committee and we appreciate it very much.

I am sorry that we cannot proceed further this morning.

Mr. SACKS. Mr. Chairman, before we adjourn, I have a witness here from Philadelphia, who has just a very short statement.

The CHAIRMAN. Very well, if it is very short.

STATEMENT OF JOHN H. McCLATCHY, DIRECTOR, HOME BUILDERS' ASSOCIATION OF PHILADELPHIA, PA.

Mr. MCCLATCHY. Mr. Chairman and gentlemen of the committee, Philadelphia is a barometer of all new house building in America.

Therefore, our case is pointed. When we build houses in our town, 132 people work per house—so the issue before you is: Shall we keep people at work?

We are arranging to finance the average borrower and by that I mean the $28- to $33-a-week man in the new house market we have made.

In any event, if you fail to continue these liberalized provisions of the Federal Housing Administration and the single insured mortgage plan that we advocate, the residential building industry of Philadelphia will be very disastrously affected. So I say to you gentlemen, we must pass this bill. This bill provides a wonderful way for the average responsible person to work out his destiny in home ownership.

Furthermore, every time a person buys a home in our town he galvanizes activity in 132 quarters. Men get work all around, the

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bank which lends them money is secured by the district Federal Housing Administration that gets its appraisal fee—and this makes them self-supporting—the workers have jobs and the entire community is stimulated to a new economic endeavor.

In Philadelphia there is a great shortage of houses. Astonishingly, there are more houses demolished than there are new houses built. The builder, the financing agency, and all other parties anxious to provide homes could do it only one way, and that is, with the help of the F. H. A. single mortgage system.

The Home Builders' Association, of which I am the spokesman, is anxious to maintain this new house purchasing and mortgage market, and they also think that we should renew the title I plan of the Federal Housing Administration, which permits borrowing of private funds for rehabilitation of property, a very vital instructive program which has a great influence on improving existing properties.

The whole issue before this committee deals with refinancing of existing properties. This is elemental. Unless we can move the resale market, and by that I mean, existing properties, we cannot sell new houses in large volume.

Our case in Philadelphia is peculiar in itself. We are a city of homes. For the first time in the history of our town we have been able to place the financing of an average priced home within the means of the ordinary borrower. To be explicit—a man who makes $28 a week in these times is enabled to buy a $4,000 home.

This factor in the new home market is our best asset. If we shut him off, gentlemen, by cutting down mortgage terms, mortgage insurance premiums, and eliminating him from the resale market, we shall have killed the entire new house production field.

This 100-million-dollar industry is just getting the benefits of the full provisions of the F. H. A. single insured mortgage plan. I say to you, that this is no time to curtail this instructive program.

Do not forget, gentlemen, that we are building more houses this year with an accelerated production not seen since predepression years. It is a situation now before you. Shall we continue this wholesome trend, or shall we abandon it?

The CHAIRMAN. Thank you very much, Mr. McClatchy. Without objection the committee will now stand adjourned until 10:30 Monday morning.

(Whereupon, at 12:30 p. m., the committee adjourned until 10:30 a. m., Monday, March 13, 1939.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

MONDAY, MARCH 13, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 11 a. m., Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall (presiding), Williams, Spence, Ford, Brown, Sacks, Gore, Mills, Martin, Folger, Gifford, Luce, Crawford, Gamble, Simpson, Johnson, Kean, Sumner.

The CHAIRMAN. Now we will hear Mr. George C. Johnson, who is representing the National Association of Mutual Savings Banks. We are glad to have you with us, and you may proceed in a general way.

STATEMENT OF GEORGE C. JOHNSON, TREASURER, DIME SAVINGS BANK, BROOKLYN, N. Y.

Mr. JOHNSON. Mr. Chairman and gentlemen, my name is George C. Johnson; I am treasurer of the Dime Savings Bank, of Brooklyn, N. Y. I am not a professor, nor an efficient and clever association secretary, but I am an ordinary working variety of savings banker and mortgage lender.

In order to give my testimony in a somewhat orderly fashion, I have jotted down much of it and ask you to bear with me for 5 minutes while I read it. After that I will answer any of your questions directly and without evasion.

My bank, which holds the first F. H. A. insured mortgage in the New York territory, is typical of the many mutual-savings banks which are interested in the extension of the F. H. A. insurance.

For your information, the National Association of Mutual Savings Banks comprises 550 savings banks with resources of $11,000,000,000 belonging to 15,000,000 people, over $5,000,000,000 of which is invested in real-estate mortgages. A large number of those banks have qualified as approved mortgagees under the F. H. A. Act, and many more plan to qualify.

During the past 20 years I have had direct supervision over the making of mortgage loans of over $200,000,000 to the small-home owners successfully. I know these people; I know their needs; I know their limitations and their good qualities. They are our people; they are the kind of people who make up the mutual-savings banks. It is on behalf of these home owners and a million more like them that I respectfully appeal to you to extend the provisions of the Federal Housing Administration Act, both as to existing construction

and as to the amount which the Administrator may insure for the purpose of making home ownership possible for hundreds of thousands of families who could not otherwise buy their homes.

Furthermore, it has put home ownership on a sound financial footing; it has eliminated the old vicious system of short-term mortgages with the whole principal coming due at once, and topped off with junior loans with their accompanying burden of bonuses and renewal fees. Every one of these home buyers can now look forward to having his home free and clear in a definite time and by means of small, regular payments that he can afford.

If the principles of F. H. A. financing are extended to enough homes, you will not need an H. O. L. C. in the next depression. These citizens will have built up such a good cushion that most of them will be able to stand on their own feet.

It is extremely important that F. H. A. insurance be kept available for existing construction. It provides a means of refinancing a great many of the mortgages that are now held by unwilling lenders who are prevented from calling them by the various State moratoriums. These moratoriums, while necessary, are a dark cloud overhanging the real-estate market. It is obvious that some method must be found to lift them. This can be accomplished with less danger when facilities are available for refinancing as many as possible of the old mortgages. More and more mortgages will be refinanced with the help of F. H. A. insurance as people realize that it can be done. This refinancing can be accomplished on hundreds of thousands of homes which are owned by people who can meet F. H. A. sound terms and requirements, but who could not pay off the mortgage otherwise. It can be accomplished without any danger to the F. H. A. insurance fund.

Plenty of money is available for this purpose. The Dime Savings Bank of Brooklyn alone is prepared to invest 15 to 20 millions of dollars per year for several years in such mortgages. I know of at least three other organizations with over 10 millions of dollars each for the same purpose, and many others with smaller amounts. In fact, there is over 100 millions of dollars available in the Long Island area without recourse to money from outside sources. The interest rates are lower than they have ever been. Many F. H. A. insured mortgages are being made in our territory for as low as 4¼ percent interest. Certainly this is a favorable time to right the difficult refinancing situation. However, the benefits of F. H. A. insurance are needed for this purpose. As I have shown, the savings banks are ready and able to take over many of these mortgages; but, in many cases, the banking law does not permit it, because the percentage of the loan is greater than two-thirds of the value. With F. H. A. insurance these mortgages become eligible and many of them can be insured without undue risk, as the owners can meet the standards of the F. H. A.

In the New York territory, the only loans available for more than 66⅔ percent, without F. H. A. insurance, are from building and loan associations and they have neither the resources nor the organizations to handle the large volume of refinancing mortgages plus the large volume of loans on new buildings in that territory. Consequently, should the F. H. A. be not extended, much of the construction work would cease, causing more unemployment. With only the building and loan associations qualifying to make mortgages of more than 66⅔ percent, they would have an unfair monopoly; chaotic conditions in real estate would prevail, mortgage interest rates would rise, and many people would be forced to resort to secondary financing, with its attendant evils. Mutual savings banks have 15 million depositors, largely concentrated along the Atlantic seaboard. The savings banks are doing much of the mortgage business in these territories and are local institutions. Our money comes from the residents of our neighborhoods and we lend it to the home owners in our neighborhoods. We have adequate organizations to care for the business, and we strongly resent any attempt to wrest it away from us by indirection.

We feel that the attempt of the savings and loan associations to scuttle the F. H. A. insurance on existing construction is insincere and inconsistent, and that they are motivated by a desire to obtain a monopoly on the large volume of mortgage refinancing that must be done in the near future. The contention of the savings and loan associations that the insurance of mortgages on existing construction should not be continued on the grounds that it would be risky for the fund, does not hold water and is particularly inconsistent. If it is not safe for the fund to insure mortgages on existing construction at a premium of one-half of 1 percent, it certainly is less safe to insure the shareholders of savings and loan associations for a premium of one-eighth of 1 percent. Remember their assets are based on exactly the same kind of mortgages which they say you should not allow the F. H. A. to insure. As a matter of fact, there is an additional safeguard when mortgages are insured by the F. H. A., inasmuch as they are not made without the benefit of an independent appraisal, checking, and review of the insurer organization. This certainly reduces the risks. It therefore does not make sense for these people to tell you that it is unsafe to insure mortgages that have had a careful, independent check by the trained F. H. A. organization, for a premium of one-half of 1 percent, but it is safe to insure for one-eighth of 1 percent assets that are based on exactly the same class of mortgages, but that have been made without any independent check whatsoever.

Please permit me to submit a few other reasons why the F. H. A. Act should be continued. Small homes are being built in increasing quantities, largely because they can be bought and paid for on the very easy terms made possible by F. H. A. insurance. Thereby much employment is created. If F. H. A. insurance ceased, this buying and building would cease, resulting in much unemployment.

People who buy these homes have a growing stake in their country and make better and more responsible citizens. The F. H. A. plan of mutual insurance is based upon sound principles. It also encourages thrift by making it easy for home owners to pay off all of the debt on their homes. The plan is successful and, because of its soundness, I do not expect the losses to exceed the premiums, especially if the premiums on all insured loans are made one-half of 1 percent, and I recommend increasing those which are now one-quarter of 1 percent to one-half of 1 percent.

F. H. A. insurance has made mortgages liquid and readily negotiable. One of the results of this is that there is no longer any reason

for the state of affairs formerly found, when there would be a surplus of mortgage money in some parts of the country and a great scarcity of it in other parts where it was needed. It has obviated the necessity for a Federal Mortgage Discount Bank to create liquidity for mortgages.

The construction standards set up by the F. H. A. have made for much better building, the result of which will be beneficial for many years to come. The standards of community planning set up have set an example which is being followed all over the country, resulting in communities that will not deteriorate as quickly as under the old hit-or-miss methods.

Gentlemen, I am at your service.

Mr. LUCE. You complain of the 66⅔-percent limit?

Mr. JOHNSON. I have one bad ear; will you speak a little louder?

Mr. LUCE. You criticize the 66⅔-percent limit. That is a State law, is it not?

Mr. JOHNSON. That is a State law; it is a State law in New York State and in some others.

Mr. LUCE. Have you gone to your legislature to have that law changed?

Mr. JOHNSON. Yes; our legislature changed the law last year.

Mr. LUCE. What is it now?

Mr. JOHNSON. They have changed it from 60 percent to 66⅔ percent.

Mr. LUCE. And you are not satisfied with that?

Mr. JOHNSON. Yes; we are satisfied with that.

Mr. LUCE. Well, you discussed having it made 90 percent.

Mr. JOHNSON. No; I am talking about existing construction, which is 80 percent.

Mr. LUCE. I am talking about existing construction.

Mr. JOHNSON. That is 80 percent. I would rather see the loans that are existing, 90-percent loans, insured not by our own self-insurance, but by a large organization, where we can get a geographical distribution of the risk. I think we could insure ourselves to some extent.

Mr. LUCE. You do not get what I am after. Why do you not get from your State assembly an 80-percent limit, instead of 66⅔ percent?

Mr. JOHNSON. Because we have not asked our State assembly to give that.

Mr. LUCE. Why do you not go to Albany and get that, instead of coming to Washington?

Mr. JOHNSON. We do not want them to give us an 80-percent limit. With an 80-percent limit, I feel we should have to form a mutual-insurance fund, which we already have in the F. H. A., and in which we would have a better geographical distribution of the risk than we could have if we had it only in New York State. It is possible the savings banks of New York could get together and form a pool for insurance on the same plan, but one of the requirements for insurance is to get a distribution of your risks, and we could not do that.

Mr. LUCE. That is all right, but it does not meet my point. My point is, why do you come to Washington to get an 80-percent limit? Why did the State assembly only give you a 66⅔-percent limit?

Mr. JOHNSON. Because it was a very much better safeguard.

Mr. LUCE. Why do you come here instead of going to Albany?

Mr. JOHNSON. Because Washington is the place to get a broad insured plan. We cannot get a broad insured plan if we confine it to our own locality, and you have already given us here in Washington a perfectly satisfactory plan, and we want to continue it?

Mr. LUCE. But you do not answer my question. Why do not you go to Albany instead of coming to Washington? You come here because it is easy; is that it?

Mr. JOHNSON. No, sir. Albany cannot give us a country-wide plan. It can only control New York State.

Mr. LUCE. But you can get an 80-percent plan for New York State?

Mr. JOHNSON. We do not want it without we can form mutual insurance. We do not want an 80-percent plan without we can form mutual insurance.

Mr. LUCE. New York State is not big enough.

Mr. JOHNSON. No, New York State is not big enough; it would not give us the geographical distribution. It is big enough as far as getting volume in money is concerned; yes.

Mr. LUCE. I had not thought New York had shrunk in importance to that degree. I am a savings bank man myself and I am in correspondence with savings banks and no Massachusetts bank has come here and asked for this. I present that as an offset to your statement that you represent all of the savings banks of the country.

Mr. JOHNSON. I do not claim to represent all of the savings banks of the country. We have differences of opinion, the same as any other organization.

Mr. LUCE. But my own State does not take your position in the matter; I have had no letters from savings banks asking for it.

Mr. JOHNSON. Have you asked your savings banks if they would like to have this?

Mr. LUCE. I have not, because out of perhaps 50 to 75 letters so far received, none has come from a savings bank. We do not think in Massachusetts that it is safe to lower our limits.

Mr. JOHNSON. Well, I consider it safe and practicable. I can give you examples of how the one-half of 1 percent is sufficient to cover the losses, based upon 20 years' experience with a $100,000,000 mortgage fund. $100,000,000 invested in mortgages, with a fund with which I am very familiar, during the 20 years has resulted in losses in selling real estate taken by foreclosure. Let me put it another way: If for 20 years we had set aside one-half of 1 percent per year on the $100,000,000 as an insurance premium, either insuring ourselves or as a mutual premium with others, that one-half of 1 percent would have amounted, in 20 years, to $10,000,000. That is simple arithmetic. During that 20 years, this fund foreclosed some mortgages and sold property with a total loss to date, in that 20 years, of only $3,000,000. There is some other property on hand. I cannot conceive of a loss on the property on hand being more than $1,500,000 more than that. That is $4,500,000. That would still leave $5,500,000 cushion.

Now, these mortgages were not all home mortgages—they were not in the beginning. They did not, in the beginning, all have the benefit of monthly amortization, the same as these F. H. A. insured mortgages do. They did not have the benefit of the check of an outside organization. And still the one-half of 1 percent, if it had

been put aside, would have been more than twice enough to pay for the losses from that particular fund.

Mr. LUCE. You have made a fine record, sir, under existing State laws, and you want to come here and add to your risks?

Mr. JOHNSON. If I thought we were adding to our risks, there is no one who would be less apt to do it than I.

Mr. LUCE. Any increase in limit adds to the risk, because it lessens your margin.

Mr. JOHNSON. Not always. It is sometimes safer to loan 80 percent to a man who has a good house, in a good neighborhood, a house he can afford, who has a good reputation, and has the ability to pay and ranks better—it is sometimes much safer to lend him 80 percent than it is to lend another man, who may be a rank speculator, or might have a bad reputation, 50 percent. That is sound banking, sir.

Mr. LUCE. Absolutely. I would loan money to certain persons for 100 percent, but you cannot legislate on a couple of isolated instances; you have to legislate based on the total of the risk.

Now, one other question: Why do you favor transferring individual responsibilities to the National Government? Some of us are trying to get rid of loading Uncle Sam with all of the burdens of the country.

Mr. JOHNSON. I would not say I favor transferring individual responsibilities to the National Government. The National Government has found a way here which will enable the home owners, as well as the mortgage lenders, to benefit by the large mutual insurance fund based on sound practices. I know of no other way that that can be accomplished. I do not think we can get as many of the mortgagees of the country together to form such a mutual insurance fund. I think, if we could, it could be done successfully without the Government guarantee.

Mr. LUCE. I will say that you and I differ so much that I do not think I will ask you any more questions.

Mr. GORE. Mr. Johnson, are you familiar with the large-scale project insuring under section 207?

Mr. JOHNSON. Somewhat.

Mr. GORE. What is your opinion, from your experience and your knowledge, of that, as to the insurance of those loans?

Mr. JOHNSON. I believe it can be soundly done. By enabling large-scale operations, sound community planning is accomplished, and I think it is one of the coming factors in the mortgage business—in the mortgage and real-estate business; instead of having individual hit-or-miss single-building jobs without relation to the general planning of the community, we could do a good deal more with these large-scale housing operations. If the operation is soundly conceived and soundly managed, I see no danger whatever, and I see a good deal of benefit.

Mr. GORE. You say "if it is soundly conceived and soundly managed." Do you think the Government should have a more material part than it now plays in directing that conceivability and management?

Mr. JOHNSON. I think the regulations and law you have are sufficient. Time may indicate that there should be some corrections; but, as far as I can see at the present time, they are sufficient. You do not want to make it so stringent that you are really building and running the houses.

Mr. GORE. Going to another point, a matter which I do not believe has been brought out in this hearing—that is, the relationship between the applications for new construction as they come from owners of existing residential property—I am just wondering if you could give us some light on that. What I would like to know is if you can give an estimate of the percentage of applications for new construction under the F. H. A. insurance plan that comes from owners of existing homes. I think that has a direct bearing on whether or not we extend this insurance to existing property.

Mr. JOHNSON. My own experience has been about 40 percent. I cannot speak for the country at large. I expect that percentage to increase as we get nearer the time when State moratoriums taper off or expire. There is great need for refinancing of mortgages that were made before these moratoriums and which are now held by people who do not want them and are going to call them, and the home owner has to have some means of refinancing them.

Mr. GORE. And your experience has been 40 percent?

Mr. JOHNSON. Yes.

Mr. GORE. Do you think the country would be that high?

Mr. JOHNSON. No. I would think it would be less. We carry on an advertising campaign in our territory, urging people to refinance their mortgages and put them on a long-term amortized basis, and I think that raises our percentage somewhat.

Mr. FORD. Mr. Johnson, you made one statement that interests me mightily, and I think was probably the wisest thing that has been said in this whole discussion. I do not know whether everybody caught it or not; but you said the continuation of F. H. A. insurance both of existing and new mortgages would make an H. O. L. C. unnecessary if we had another depression. I think that is the best thing that has been said in this hearing.

Mr. JOHNSON. I might say I do not say that thoughtlessly. I have analyzed the record of thousands of mortgages which went through the depression, and thousands which failed in the depression, and if I had more time I would go into that in greater detail.

Mr. FORD. We had that situation existing prior to this depression, and the H. O. L. C. of necessity came into the picture.

Mr. JOHNSON. That is right.

Mr. GIFFORD. Mr. Johnson, have you taken any outside mortgages, that is, mortgages from outside the area you formerly took mortgages from; do you go outside of that area now, since they are insured?

Mr. JOHNSON. No; we do not.

Mr. GIFFORD. You said you wanted a larger area, a larger section for mortgages. Your mortgages rest very comfortably under the umbrella of Government insurance, do they not?

Mr. JOHNSON. Yes, sir. For fear I may not have made myself clear to you, I did not mean to say we wanted a larger area in which to take mortgages. We do not. We want a larger area than New York in which to spread the insurance risk.

Mr. GIFFORD. Well, you might take in some areas that were pretty bad risks.

Mr. JOHNSON. What is that, please?

Mr. GIFFORD. You might take in some areas that were pretty bad risks.

Mr. JOHNSON. I am assuming that it will be administered correctly, and they will reject those.

Mr. GIFFORD. You constantly refer to the constant supervision of the F. H. A. trained people.

Mr. JOHNSON. Yes.

Mr. GIFFORD. You would rather take one approved by them than one approved by your own investigators, would you not?

Mr. JOHNSON. We always approve every single loan ourselves first. I know many people who are taking F. H. A.'s without their own approval.

Mr. GIFFORD. Which would you have more confidence in, the F. H. A. investigators or your own?

Mr. JOHNSON. You might make me feel conceited, but we have more confidence in our own investigation. Our experience also in our area indicates that the F. H. A. organization there is doing a competent job; that their appraisals and our appraisals, while they do not always jibe, they average up pretty close the same.

Mr. GIFFORD. I realize the tough position you are in, of course, trying to appeal to us for the home owners' when you yourselves profit so greatly thereby.

Mr. JOHNSON. We are a mutual institution.

Mr. GIFFORD. Of course, you can very properly; but you realize we have to look at it a little critically, do you not?

Mr. JOHNSON. I want you to, sir; you have the decision to make.

Mr. GIFFORD. You have now the umbrella of the F. H. A.

Mr. JOHNSON. You have a serious decision to make here and I want you to question anything I say. But I sincerely have in mind, as well as our own profit, the home owner with whom I have had direct contact all my business life.

Mr. GIFFORD. Mr. Luce and I represent Massachusetts savings banks. We have a great many. You say they are nearly all on the Atlantic seaboard.

Mr. JOHNSON. Yes.

Mr. GIFFORD. But we have a very large percentage in Massachusetts and they do not seem to want this at all.

Mr. JOHNSON. They probably have not come around to it.

Mr. GIFFORD. Why do you suppose they have not come around to it?

Mr. JOHNSON. You know we are conservative in the savings banks, and I think it is one of our good qualities. We do not jump at things too quickly.

Mr. GIFFORD. You think that is a good quality?

Mr. JOHNSON. We do not jump at things too quickly. The savings banks were a little slow to take this up; however, there are more and more of them taking it up all the time. Only last month I was asked to go upstate, to the savings banks upstate that do not extend F. H. A. insurance, but have been studying it, and some of them want to go in it, and they asked me to come upstate and talk with them about our experience.

Mr. GIFFORD. An F. H. A. man is talking to my chamber of commerce this evening and telling them about it, and they are leaving no stone unturned to influence them. The point is unless they come into it they won't have any business.

Mr. JOHNSON. I believe they will limit their business unnecessarily if they don't come into it.

Mr. GIFFORD. Of course, you know they will lose their business.

Mr. JOHNSON. They will lose business that they do not have to lose.

Mr. GIFFORD. And savings banks all over the country would gladly take them if they were insured?

Mr. JOHNSON. They will. I think they would be foolish if they stand apart.

Mr. GIFFORD. Do not they all have to come under the umbrella now—building associations and all?

Mr. JOHNSON. They do not have to make all of their loans under the F. H. A., no, sir; we make plenty of loans without F. H. A. insurance. But it will enlarge their field, and it is a fine thing for them.

Mr. GIFFORD. You know they will all have to come under it?

Mr. JOHNSON. Yes; they should come under it.

Mr. GIFFORD. Now you have come part way with me.

Mr. JOHNSON. From their point of view—I am speaking now from the point of view of their good—yes, they should come under it. We have not all come under it; the Borough Savings Bank has not come under it, and many of the other New York banks have not come under it, because we have stayed out until we were convinced it was a good thing for us and for our borrowers.

Mr. GIFFORD. Being conservative, as you say, we are coming under it, but we are going to be forced to come under it—not because we believe we approve insuring mortgages to 80 percent or 90 percent, because we still know that is ill advised, but we will be forced to come under it.

Mr. SPENCE. Does your concern purchase any insured mortgages?

Mr. JOHNSON. No; we make all of our mortgages direct.

Mr. SPENCE. Do you make any loans under title 207?

Mr. JOHNSON. No; under 207 and 210 we have not made any yet, but I am looking for some.

Mr. SPENCE. You want those loans, too?

Mr. JOHNSON. Yes.

Mr. SACKS. Observing what you said about banks and building and loan associations, my section of the city of Philadelphia conceived this F. H. A. was very necessary, because the people of Philadelphia had lost confidence in the B. and L.'s. You know what would have happened in the State of Pennsylvania if it was not for the F. H. A.—many men would have lost their homes in Philadelphia, because the B. and L.'s have not been able to do any business, having to get people to buy shares, and they have not recovered very rapidly, because of the situation which has obtained in the last few years, and without the F. H. A. they would not have been able in Philadelphia to go ahead and build any new homes or to save any of the old homes.

Of course, that is a peculiar situation of the B. and L.'s in Philadelphia, where they took second mortgages. And we feel even today that many persons would have more confidence in a B. and L. mortgage if they could get the Government to insure it, because they are afraid of the B. and L. on past experience.

Mr. GIFFORD. There is no question about that.

Mr. FORD. The average savings-bank depositor knows that most of the money he puts in a savings bank is loaned out on mortgages. That is true in my State. And, while he has F. D. I. protection, do not you think it gives him a little more comfortable feeling to know that the loans they are making are largely insured, in addition to the F. D. I.?

Mr. JOHNSON. It certainly does not detract from his confidence.

Mr. CRAWFORD. Mr. Johnson, you spoke of the 550 savings banks. You refer to the banks located in New York State only?

Mr. JOHNSON. No; the 550 are largely along the Atlantic seaboard. Five hundred and fifty is the total membership of the national association. I mentioned that to give you the scope of the savings banks.

Mr. CRAWFORD. I get the impression from your remarks that as you appraise the efficacy of this whole plan and as you feel friendly toward it, it is based almost entirely on the insurance phase by reason of the geographical distribution of the risk. Is that correct?

Mr. JOHNSON. Yes, sir.

Mr. CRAWFORD. If the geographical distribution of risks was eliminated, you would not be in favor of the plan?

Mr. JOHNSON. I would be much less in favor of it.

Mr. CRAWFORD. You would be much less in favor of it?

Mr. JOHNSON. And I might possibly be not in favor of it at all.

Mr. CRAWFORD. I want to ask you this question, and I want to put it in a way that it won't be misunderstood. You live in an atmosphere of banking the same as the flour miller lives in an atmosphere of the grain business.

Mr. JOHNSON. Yes, sir.

Mr. CRAWFORD. Or a textile-mill operator lives in an atmosphere of fiber and fabrics.

Mr. JOHNSON. Yes, sir.

Mr. CRAWFORD. Do you feel that perhaps this is a form of social credit wherein, by reason of the great geographical risk which is involved, backed up by a Government agency and later by a Government debenture or financing in one way or another, that if we were to run into an era where hundreds of thousands of home owners cannot meet their payments, that geographical distribution will create a pressure group which, in turn, will lead the legislative body into a form of social credit and perhaps in that manner bring about a revolution in the extension of credit and finally work into the general monetary scheme of things?

Mr. JOHNSON. I do not believe so. I do not see how they can bring pressure upon you. What would the pressure be?

Mr. CRAWFORD. Political pressure.

Mr. JOHNSON. It would be to change the terms of the mortgage. You have nothing to do with the terms of the mortgage after it has beed made. All you are is an insurer. After the mortgage has been made you cannot say "Reduce the rate of interest below 4¼ percent." You cannot say "Allow them to stop paying interest or taxes." You are only insurers; you are not the holders of the mortgage.

Mr. CRAWFORD. Is not this true, that through the legislative bodies in the States and the national Congress we can legislate on any of this to bring about moratoriums and fix it so that a man does not have to pay anything for, let us say, 5 or 10 years?

Mr. JOHNSON. I do not believe you will have pressure brought on you to bring about such moratoriums or to bring about anything along that line by reason of your F. H. A. insurance all over the country. On the contrary, I believe you will have more people who have reduced mortgages, because they are reducing them every month, and you will have more people who have reduced their mortgages and who are in a position where they do not need as much help and, further, are in a position where they will look with question upon the Government wanting to take too much of a hand in those things. I think you are making more responsible citizens than we made when we used to lend people money and then make no requirements for them to pay it off.

Mr. CRAWFORD. Let us be as realistic about it now as we can and put up exhibit A here. Let us assume, for instance, we have out insurance on 8 or 10 million homes, or to the tune of $6,000,000,000, scattered all over the United States, and in certain areas heavily concentrated.

Mr. JOHNSON. Yes.

Mr. CRAWFORD. And we meet a situation as bad, or worse, as that which existed between 1929 and 1933, and thousands of home owners have their equities paid up and their mortgages reduced, but they have no income. I am now referring to payrollees.

Mr. JOHNSON. Yes.

Mr. CRAWFORD. They have no income with which to meet the payments as they mature from month to month, whether they are heavy or light, and it becomes necessary for moratoriums to be declared, or to become operative whether declared or not, and payments cease coming in.

Mr. JOHNSON. Yes.

Mr. CRAWFORD. Now, if you have a pressure group developed over all parts of the country, through Government insurance, why would not that be reflected and what would prevent that being reflected through every State legislative body and your national body, by reason of the cementing influence of the F. H. A. and all of its activities? Am I dreaming when I bring up a situation like that?

Mr. JOHNSON. No; I think it is something to be considered. I do not like pressure groups.

Mr. CRAWFORD. We deal with them all the time.

Mr. JOHNSON. Yes; I know you do.

Mr. CRAWFORD. They are just learning how to operate.

Mr. JOHNSON. I do have a kindly feeling to home owners who, we will say, for 10 or 15 years have been paying on their mortgages and have reduced them. If the home owner gets out of a job and needs a little help at that time, I think whatever modifications are necessary can properly be made.

Mr. CRAWFORD. That is a big term you use, "whatever modifications are necessary." Now, you will find tens of millions of people who agree with you on that, and you will find several hundred legislators in Congress and in the State legislative bodies who agree with it, and they in turn will bring about your moratorium legislation in the form, we will say, of social security.

I know we do not like to deal with this question of social security and national credit; but, in my opinion, this is a very fine demonstration of social security or national credit directly or indirectly. I think that is exactly what it is, to a degree; and I wanted to get perfectly clear in my mind why you support the general plan. I think you have cleared that up.

Mr. JOHNSON. It is a very serious question you have in mind. I have given it some thought. Of course, we cannot foresee the future. I do feel, though, that a man who has paid on his mortgage for many years before he comes against a time of stress is going to give you a good deal less trouble than home owners who, due possibly to no fault of their own, but possibly due to the fault of the old mortgage system, never paid off anything, when they came into a time of stress, owing the original debt and bringing in a house that has gotten old on their hands. I think they are going to give you a good deal less trouble.

Mr. CRAWFORD. Do you recommend that this type of legislation should be brought into our general fabric as permanent legislation?

Mr. JOHNSON. I recommend either this mutual insurance feature which you have formed, or something similar to it, be made permanent.

Mr. CRAWFORD. You mean stamped with Government approval?

Mr. JOHNSON. That is what I am coming to. I would like to see the time when you have had sufficient actuarial experience that you can eliminate the Government approval, and I believe it can be done.

Mr. CRAWFORD. Eliminate it by the industry itself?

Mr. JOHNSON. Eliminate the Government approval, changing it over to a mutual insurance company, in which all of the lenders who wish to benefit by it are members, and see that the insurance premiums are paid, and that there is an honest company insurance fund, or whatever you may call it.

Mr. CRAWFORD. Would that mutual group then operate under the leadership of the lending institutions independent of the Government?

Mr. JOHNSON. Yes, sir.

Mr. CRAWFORD. In no form whatsoever?

Mr. JOHNSON. Yes, sir.

Mr. CRAWFORD. And you have a hope that may be accomplished?

Mr. JOHNSON. Yes, sir; after you have sufficient actuarial experience. Now, it is somewhat of an experiment, and I do not think you can sell the idea until you can prove it is sound. And I believe the principles on which you have founded it are sound.

Mr. FORD. Is not this just merely the Government leadership in a great national mortgage-insurance plan?

Mr. JOHNSON. Yes, sir.

Mr. FORD. They set up the machinery and make the thing work out, if possible, and if the time comes when the lending institutions of the Nation can be so correlated or so brought together that they can be organized into a single agency maintained by themselves, there is no reason why that should not be done?

Mr. JOHNSON. That is right.

Mr. FORD. And do you agree that it is proper for the Government to take the leadership in that matter and make it possible at this time when we need it?

Mr. JOHNSON. That is right.

Mr. JOHNSON of Indiana. Did I understand you to say that you would make 80-percent loans on existing structures if your State law would permit you to do so, without any F. H. A. insurance?

Mr. JOHNSON. No; I said I would prefer not to make it under a State law; I would prefer only to make it where we can have a mutual insurance fund, whereby we set up reserves of, say, one-half of 1 percent and where we could have a greater geographical distribution than if we made them under a State law. That is my objection to trying to do it under a State law.

Mr. SACKS. In view of that, would it not be hard to operate unless you had practically the same law in every State; because you might run into serious trouble with lenders?

Mr. JOHNSON. Yes.

Mr. SACKS. Unless it was uniform?

Mr. JOHNSON. It would be harder than by having it uniform.

Mr. MARTIN. What is your average loan?

Mr. JOHNSON. Average F. H. A. loan, or otherwise?

Mr. MARTIN. Average F. H. A. loan.

Mr. JOHNSON Our average F. H. A. loan is about 78 percent.

Mr. MARTIN. And in amount?

Mr. JOHNSON. The average amount is about $5,000.

Mr. MARTIN. What is the smallest loan you have, of F. H. A.?

Mr. JOHNSON. I would say we have several around $1,500 or $2,000.

Mr. MARTIN. You have them that small?

Mr. JOHNSON. Yes. I think they are the smallest.

Mr. MARTIN. Do you solicit small loans?

Mr. JOHNSON. Yes, sir.

Mr. MARTIN. You encourage loans among that class of borrowers?

Mr. JOHNSON. We feel we are a bank of the small man, and we encourage the small man's loan. We take his money, and we think we should do business with him.

Mr. WILLIAMS. What territory do you cover in making these loans?

Mr. JOHNSON. Are you familiar with the New York territory?

Mr. WILLIAMS. Not very well.

Mr. JOHNSON. We cover the New York territory of Brooklyn; that is, Kings, Queens, and Nassau Counties. It is the westerly one-half of Long Island, adjacent to Manhattan.

Mr. WILLIAMS. You just cover part of New York State?

Mr. JOHNSON. That is right.

Mr. WILLIAMS. And how do you get these loans?

Mr. JOHNSON. We are very well known in that territory, and about 30 percent of our people come on recommendation or from previous business; about 20 percent more come from advertising which we do—I would say about 30 percent more come from advertising which we do; the balance come from starting off with new houses right in the beginning and making building loans on their new developments, and bringing them later into permanent mortgages. We get a good deal of business by financing new construction of the small house right from its inception.

Mr. WILLIAMS. What interest do you charge?

Mr. JOHNSON. We charge 5 percent—from 4¼ to 5 percent on permanent loans, depending on the loan and the risk. We charge the

builder 6 percent during construction until the house is finished. That pays us for the little extra risk we run. And as soon as the speculative builder finishes his house, we reduce the rate of 5 percent; then, when he sells the house, we convert it either into a 4¼ F. H. A. loan, or somewhere between 4¼ and 5 percent.

Mr. WILLIAMS. Do you make your own appraisals?

Mr. JOHNSON. Yes, sir.

Mr. WILLIAMS. And the F. H. A. makes an appraisal also?

Mr. JOHNSON. Yes, sir. I am a trained appraiser myself; so are many of our other officers.

Mr. WILLIAMS. Are they made entirely separate and independent of each other?

Mr. JOHNSON. They are made entirely separate and independent of each other.

Mr. WILLIAMS. How do your appraisals correspond?

Mr. JOHNSON. There are differences, but I would say I think they average pretty much the same. There are some on which we appraise a little higher; some on which we appraise a little lower than they do.

Mr. WILLIAMS. Do you charge any commission?

Mr. JOHNSON. No, sir; we charge no commission.

Mr. WILLIAMS. What other fees do you charge, or what other expenses are there, outside of the interest charges and premium charge?

Mr. JOHNSON. When a mortgage is made, we charge for searching the title at the standard published rates; the State-mortgage tax of one-half of 1 percent, and for drawing the papers. There are some mortgages where, due to local competitive situations, we absorb that charge. We are interested in getting interest for the long period.

Mr. WILLIAMS. That is one-half of 1 percent ordinarily, as I understand?

Mr. JOHNSON. About 1 percent for the title searching, and mortgage tax.

Mr. WILLIAMS. One percent?

Mr. JOHNSON. Yes, sir.

Mr. WILLIAMS. Is that amortized in the loan or required to be paid in cash?

Mr. JOHNSON. No; that is paid in the beginning.

Mr. WILLIAMS. It is paid in the beginning?

Mr. JOHNSON. Yes, sir.

Mr. WILLIAMS. What does your money cost you?

Mr. JOHNSON. Two percent.

Mr. WILLIAMS. It costs you 2 percent?

Mr. JOHNSON. We pay 2 percent to our depositors.

Mr. WILLIAMS. And you loan it for 4?

Mr. JOHNSON. Four to five.

Mr. WILLIAMS. You gave your experience awhile ago with reference to losses you have had.

Mr. JOHNSON. Yes, sir.

Mr. WILLIAMS. You did not take into consideration in that figure the operating expenses of your institution, did you?

Mr. JOHNSON. No; I did not take into account the operating expenses of my institution.

Mr. WILLIAMS. What would be your operating expense?

Mr. JOHNSON. About three-quarters of 1 percent.

Mr. WILLIAMS. In addition to the losses?

Mr. JOHNSON. Yes. The balance goes to take care of these losses on the write-down of railroad bonds, for instance, and the write-down of any assets which we consider doubtful. Then, as to our surplus, we feel that our surplus must grow proportionately to the deposits. We have about 16-percent surplus.

Mr. WILLIAMS. With reference to this geographical distribution of the risk, do you think in case of a slump in real-estate values in the country that that would be general, or would it be confined more or less to certain localities?

Mr. JOHNSON. I think it would be more severe in certain of the localities, in a city like Detroit, for instance, which is going to suffer a slump due to the slump in the automobile business; whereas the textile business might be all right at the time; and vice versa.

Mr. WILLIAMS. Has that been in the history of real-estate depressions?

Mr. JOHNSON. To some extent. We think a slump like we have just gone through is going to affect everybody, as you know; but minor slumps often take place in one locality without taking place in another, due to local conditions.

Mr. WILLIAMS. I am asking if, in view of the fact the slump was general, of course the more widely distributed the slump was, the worse it would be and, instead of having the insurance risk widely distributed, it would be worse, because it would affect everybody; whereas in the other case it may be local.

Mr. JOHNSON. It would not be any worse than if we had various local insurance groups; it would not be any worse, if it was a deep, widespread slump, than if we had local insurance groups, and it would be much better in the case of a minor slump.

Mr. WILLIAMS. Of course I do not think there is any question but what the principle is sound that the more widely the risk is distributed, the better it is.

Mr. JOHNSON. It is fundamental in all insurance—to distribute the risk.

Mr. WILLIAMS. That is the same policy that is back of bank insurance by the National Government, rather than by the States.

Mr. JOHNSON. Yes.

Mr. GIFFORD. Being a real-estate operator who has been on the stand in court so many times as an expert on real estate, is there anything more shocking than the great difference between real-estate appraisals when property goes into litigation; do you know anything more shocking and more disconcerting?

Mr. JOHNSON. No.

Mr. GIFFORD. Recently I heard two real-estate operators testify as to value; one declared $2,000 is its value, another $15,000. This on a little $10,000 piece of property. Is there anything more shocking than the real-estate expert's valuing property when property is in litigation?

Mr. JOHNSON. I know exactly what you mean. I agree with you; I think it is wrong and uncalled for.

Mr. GIFFORD. It is not understandable.

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Mr. JOHNSON. It is not understandable, and it is uncalled for.

Mr. WILLIAMS. Do I understand there is no kind of system or standard set up of appraising real estate, that you can depend on at all?

Mr. JOHNSON. The appraisal of real estate cannot be an exact science; it is a cross between a science and an art. Sometimes the opinion of an experienced man, who may not be able to express his reasons, is much better than a long five-page appraisal of a man without experience but with a great choice of words.

Mr. WILLIAMS. In recent years it is a fact, is it not, there has been an attempt made to set up definite, well-established standards for appraising real estate?

Mr. JOHNSON. Yes, sir; there has been a very serious attempt, and the attempt is becoming more and more successful, by the National Association of Real Estate Boards and various real-estate boards and associations of real-estate appraisers who are making attempts to set up satisfactory standards both of ethics and appraisals and are exchanging information; and in the very attempt to set up these schools of standards, they are accomplishing a good deal.

Mr. WILLIAMS. It is not as much of a guess and haphazard standard and crazy-quilt work as it used to be?

Mr. JOHNSON. No; it is on a much more scientific basis.

Mr. SPENCE. Are you required to invest all your funds in mortgage loans?

Mr. JOHNSON. No; we are limited to 65 percent of our funds in mortgage loans. The rest we must invest in other investments—what we call legal bonds and cash.

Mr. SPENCE. But you are limited to 65 percent on mortgage loans?

Mr. JOHNSON. That is right. And that might answer one of the questions. I should have brought that out when you were asking about the spread between the 2 percent and the 4 and 5 percent. In our own bank, about 50 percent of our assets are invested in bonds. The bonds which we have been able to buy in the last few years, good bonds, especially Government bonds, some of them are not paying us what we are paying our depositors, and that takes care of part of the spread, also.

Mr. SPENCE. Your inclination now is to get out of bonds and buy secured mortgages?

Mr. JOHNSON. We always take all of the good mortgages we can get, up to our limit of 65 percent. Sixty-five percent is about what we would usually like to have invested in mortgages.

Mr. SPENCE. You usually have up to the limit?

Mr. JOHNSON. Yes, sir.

Mr. CRAWFORD. On that point you were just discussing, have you made any calculations to show what return might be netted on your investment of capital, if the laws permitted you to put your entire portfolio in insured paper—to take F. H. A. loans, for instance?

Mr. JOHNSON. Right now we can get from 4¼ to 5 percent. That, of course, would fluctuate with the money rates.

Mr. CRAWFORD. Let us assume that you could always obtain a minimum, say, of 4½, or say it averaged 4¾.

Mr. JOHNSON. Would we have more income now?

Mr. CRAWFORD. Yes.

Mr. JOHNSON. Yes. Our income now is about 3.78 percent.

Mr. CRAWFORD. If you put everything into insured paper, where would it jump to?

Mr. JOHNSON. It would jump to 4¼ and 5—probably 4½.

Mr. CRAWFORD. I have had discussion with certain operators where they claimed to me—said to me—that they can net 20 percent per annum on their invested capital without going outside of Government insured paper, if the law would permit them to do so; therefore, they are very much in favor of this kind of a plan.

Mr. JOHNSON. The only way I can see would be by acting as a mortgage company and turning mortgages over at a premium to certain commercial banks. No savings banks are doing that; they are originating mortgages and selling them to people who have not the facilities to originate mortgages, and are charging a premium up to about 3 percent and making about a half a percent.

The CHAIRMAN. We thank you, Mr. Johnson.

Now the next witness is Mr. Thomas S. Holden, vice president of F. W. Dodge Corporation, New York.

STATEMENT OF THOMAS S. HOLDEN, VICE PRESIDENT, F. W. DODGE CORPORATION, NEW YORK

Mr. HOLDEN. My company is in the business of gathering and publishing information about construction and related matters. We have been in that business since 1892. We are looked to by people in the construction industry for information of various kinds—technical information, information as to trends of construction, kinds of buildings that are being planned and are being built in various parts of the country.

Among my functions are those of keeping track of construction trends, the contacting of various organizations, attending functions, and of meeting groups of people—real-estate and construction people. But we have no direct interest in any construction projects, in the sale of any materials, or in construction financing; we are observers of all that goes on in those fields. In connection with that work, I am at the moment president of the New York Building Congress and president of the special housing committee of the Merchants Association of New York, although today I am expressing my own personal views and am not speaking for those organizations.

I feel that the enactment of the amendment before you is very essential for the continuation of business recovery—the recovery that has taken place since the middle of last year coming about very largely in the residential field. It was aided very considerably by the F. H. A. program, and it is going very nicely at the present time.

Since the first of this year the volue of contracts for residential building has been more than double the corresponding period of last year. I think it would be too bad to see that revival nipped in the bud by a failure to continue these very constructive activities of the F. H. A.

Mr. LUCE. Are you referring to both branches of the question—new construction and existing mortgages?

Mr. HOLDEN. And existing mortgages.

Mr. LUCE. You are referring to both of them?

Mr. HOLDEN. To both of them; yes.

Mr. GORE. Are you not also a member of the Advisory Council for the Department of Commerce?

Mr. HOLDEN. Yes.

Mr. GORE. Are you privileged to reveal if they have taken any position with respect to this, and if so, just what that position is?

Mr. HOLDEN. Although our relationship to the Secretary of Commerce is confidential, I think I could say this, that the Business Advisory Council has a housing committee, and we have considered this very question of these amendments and have expressed to the Secretary our opinion that the enactment of these amendments is essential for continued recovery; that the recovery measures effected by the Government to assist real-estate companies and construction companies—especially the H. O. L. C. improvement of the home-loan-bank system and the F. H. A.—have already been very much appreciated by the construction industry.

I will say, judging from my contacts with many people in many places, that the F. H. A. program is very highly regarded in the construction industry, because it has opened up financing for modernizing and new construction very generally throughout the country; it has done a great deal to improve the construction standards in the small-house field; it has brought private capital into the field and has only required a small contingent liability for the Government. I think it probably may be said it is the most inexpensive recovery measure that the Government has adopted. It has tended to make the mortgage practices all over the United States uniform and has tended toward uniform interest rates, which I believe to be a very desirable condition of affairs. It has really tended to change an old-fashioned system of mortgage lending, which had a great deal in common with pawnbroking—the pledge of an asset or security to be redeemed at some later date—and turning it into a credit system, whereby you could consider the ability and the opportunity of the borrower to pay back, and make it easy for him. That transition from the old system into the new one is, I think, one of the most constructive things that has happened in the past 10 years. It has really strengthened our institutions, strengthened our financial system, and it is making a revival of the construction business possible in this country.

As one of the factors in the general money situation, the F. H. A. has tended to bring interest rates down. Interest rates have come down through the fact that there is plenty of available money and a number of different institutions competing in the money market. While the F. H. A. has not been the only one, it has been one of the important factors in bringing those rates down. That is a very important consideration.

I have here, but have not the time to read it, a book by Sir Charles Gorman Webb, a British financial expert, who has also made quite a study of housing. He recites in one place in the report to the Minister of Health that a certain type of house could be made available for $2,000 in England if the interest rate was 4 percent; but at a higher interest rate that particular class of building or that particular income class could not get a new house. In another place, he shows where, during a 4-year period, from 1928 to 1932, when the prevailing interest rate was between 6 and 6½ percent, the average

number of houses built in England and Wales was about 1,871 a year; in the next 4-year period, 1932 to 1936, the average number of houses built was 2,841 a year—a 51-percent increase. And the principal difference was that in the earlier period, when there was a smaller volume, the interest rates were from 6 to 6½ percent, and in the second period, with the much larger volume, the interest rate ranging from 5 and 5½ and 6 percent had gotten down to 3½. The general level of construction costs did not change very much during that time.

Mr. SPENCE. What is the title of that book?

Mr. HOLDEN. Three Million Houses, by Sir Charles Gorman Webb. And on the basis of a very careful study and years of experience in finance and studying houses he comes to the conclusion that the interest rate is one of the determining factors in making a large market for low-priced buildings.

And the matter of refinancing existing mortgages is important, too. Doubtless you have heard others raise the point that many times a family which wants a new house must dispose of the one they now own, and you need the financing for that purpose. It is just like in the automobile field: The condition of the used-car market is a determining factor as to the number of new cars that can be sold. However, beyond that, we have the situation of the institutions back when the H. O. L. C. was doing its refinancing job. It did two things: It relieved about 1,000,000 home owners by giving them a better mortgage, a mortgage that they could pay up, in place of one they could not pay; but it also helped out the institutions very considerably, because, while they had to acknowledge certain losses, they got a better security in their portfolios in place of the old dubious securities that were exchanged for them. The F. H. A. so far, I understand, has written insurance on about $800,000,000 of existing mortgages; some probably as distress property; some where borrowers felt that perhaps conditions of the market entitled them to a somewhat better deal than they had gotten before; and, course, some to facilitate sales in order that the people could purchase new homes.

Mr. SACKS. We gave through the H. O. L. C. an opportunity to those who were financially distressed and unable to hold their properties the right to keep them.

Mr. HOLDEN. Yes.

Mr. SACKS. Do not you think it is just as important for the Government to try to relieve a little bit those who are frugal to protect their properties through the F. H. A.?

Mr. HOLDEN. I do, indeed; and I think the people who signed up mortgages 5 or 10 years ago are entitled to get a break in this more favorable money market that exists today, just as much as the people who happen to be starting new homes today. I think certainly in the field of lending you should have the market pretty well open, so that everybody can participate alike in the somewhat more advantageous conditions.

Mr. FORD. I would like to make an observation to you on this point: The building and loan associations say that if the existing mortgage loan were repealed they could take up $1,000,000,000 in the next year of the money that would be necessary for that purpose, through their

building and loan associations. Would your observation lead you to believe that could be done and on as favorable terms as F. H. A.?

Mr. HOLDEN. I question on as favorable terms as F. H. A., because I have seen reports by some of their own committees stating that a great many of their institutions need quite a considerable spread above what they pay out for their money and what they must charge the borrowers; that a smaller institution must charge a higher rate. I think it is questionable. They may have available funds, but I think it is questionable that they could give as good terms.

Also, I will say in connection with that, if their institutions are elgible they could become authorized mortgagees under the F. H. A., and many of them have, and there is nothing to prevent them from coming in under this program if they want to be in that market.

Mr. SACKS. Mr. Holden, at this point let me ask you about the Business Advisory Council to the Secretary of Commerce, that you say is in favor of this. Would I be asking you to reveal a confidence by telling who the members are of that committee?

Mr. HOLDEN. I did not quite hear all you said. I said the Advisory Committee expressed itself; I am not speaking of the Secretary of Commerce.

Mr. SACKS. Would I be asking you to violate a confidence by telling us who the members of that committee are?

Mr. HOLDEN. There are about 50. Mr. Overly Harriman is chairman; Mr. John D. Biggers, of the Libbey-Owens-Ford Glass Co., of Toledo; Mr. Deupree, president of Procter & Gamble; Mr. Edward Stettinius, president of the United States Steel Corporation; Mr. Roland Hamilton, president of American Radiator——

Mr. FORD. Is General Wood on that committee?

Mr. HOLDEN. No; I think he is not on the committee. Mr. Nelson, of Sears, Roebuck, is on the committee. Mr. Cannon, of the Cannon Mills; the president of the Hormel Packing Co. is one of the new members; Mr. George Hill, of Houston, the head of the Houston Oil Co.; Mr. Walter Teagle, of the Standard of New Jersey—generally, it is a group of representative businessmen, representing a number of industries from many localities throughout the country. There is a banker from Omaha and one gentleman from San Francisco. So it is broadly representative, both as to the sections of the country and as to the industries.

Mr. SACKS. I would like to ask you another question: What do you think about these large-scale projects under section 207?

Mr. HOLDEN. I think they are one of the most important things that the F. H. A. does, potentially—not yet. The operations under that have not yet approximated in size and importance the small-house mortgages. What that is doing, as I see it, is inducing, in place of the old speculative type of development, investment housing; that is, it is inducing a type of enterprise of which we have had some examples in this country, but not nearly enough; that is, where a project is entered into as an investment to be operated over a period of years for income, rather than for some quick profit and a quick sale.

Mr. SACKS. Is it, in your opinion, a better financial practice to operate and build them under a law such as the F. H. A., under section 207, or to do just what we did in the past, on a hit-and-miss proposition, where it was speculative?

Mr. HOLDEN. I think there cannot be much doubt about that—that it is a great advance.

Mr. SACKS. It is much safer?

Mr. HOLDEN. Yes.

Mr. WILLIAMS. Right in that connection there has been a good deal said here, and perhaps a good deal more will be said before we get done, on the manner in which big projects are appraised. Are you familiar with that?

Mr. HOLDEN. In a general way. I only know of one of those projects in any detail.

Mr. WILLIAMS. It seems, in addition to the actual physical values put into the property, the money spent in the development of it, together with the original land values, there is what seems to me to be a more or less speculative value based upon the community growth and development in the locality where the project is being built. I was just wondering—it has been a very serious question in my mind as to how far, if at all, in making those appraisals, there should be taken into consideration the future development of the community. It seems to me that that is very largely speculative and perhaps is not sound.

Mr. HOLDEN. I presume you have reference to a write-up of the value of the land above what it may have cost in dollars.

Mr. WILLIAMS. Yes.

Mr. HOLDEN. I have been thinking a good deal about that, because I have heard criticisms outside as to that procedure, and it seems to me there is a lot of confusion in that situation. I think there is a difference between the valuation of the land that you place upon the land for the actual project and, perhaps, some enhancement of the land adjoining it. Now, if the fellow who holds some land adjoining a new development project will get an appreciation in value by reason of the fact that the other fellow has improved the quality of the neighborhood, he has an unearned increment, and I think the man who conceives a project and a going enterprise which is going to be a going enterprise to furnish shelter to people, and who gets together the architects, contractors, assembles the land and goes through the financing, and so on—I think he does create a value there that is over and above the total number of dollars spent for the physical property.

Mr. Ford does that. When a car comes off of the assembly line in Mr. Ford's factory it is worth more than the sum total of the steel and the glass and the rubber that goes into it. In the census we call it the value added by manufacture. If he did not create that added value we would not pay him a price which nets him a profit. If he can sell it on the market at a price which nets him a profit, he is collecting that value which he has added by putting all these things together.

I feel that in organizing the enterprise, which a project is going to be, if it is going to furnish good rental accommodations for 20, 30, or 50 years, that there is perhaps an intangible value created by putting all those things together, so that the real thing we should look at on the financial statement of such a company is the permitted

total capitalization. I think perhaps confusion has arisen because they have attributed that added value to the land. That has grown up because in the old days the only reason a fellow usually had for developing a project like that was in order to make a profit on his land. He thought of the buildings as some trimmings to put on it so he could sell the land. So, being essentially a land operator, he thought in terms of land, and he was going to make a swell profit on his land and he would throw in these other things in order to make a sale.

If it is going to be an investment project that operates over the years, the quick sale of the land disappears as a factor in the thing, and what you want to get in those projects is a fair total capitalization. I would feel that the F. H. A. might clear up that matter and clear up the confusion and perhaps meet that criticism if they would attribute that write-up to the value added by the development, in reaching a proper total capitalization of the project, rather than crediting it to the land. Mr. Ford does not credit his profit to his chassis; his profit inheres in the whole car and in the spread between his total costs and his selling price.

So that I think with a certain figure attributed to the appreciation of the land we get in there a confusion of the unincrement of the other fellow who does no development work, and we get a confusion of the old-fashioned speculative procedure in there which usually is open to just criticism. And I think if the terminology were made clear, that then, instead of looking at that one item, we would look at the whole thing just as a going business enterprise properly capitalized.

Mr. WILLIAMS. It seems to me that that system is open to pretty severe criticism and perhaps some severe losses. There is an element of speculation inserted in it which seems to me makes it harder to evaluate. For instance, we have had the criticism here of a number of these projects where, we will say, there is $50,000 invested in the land, and then in the finished product the value of that land, over and above what it was bought for and its actual value at the time was perhaps increased four times; in other words, the promoter or sponsor put only $50,000, we will say, to illustrate the proposition, in the project, and borrowed all of the rest of the money; and when it was finished he had, we will say, a valuation there of $150,000 more than he put into it. Now, it seems to me like that throws open the gates for a pretty wide field of speculation, and he receives stock in the corporation to the extent of $150,000 representing only $50,000 that he put into it originally. That may be an extreme case, but I give that simply to illustrate the point.

Mr. HOLDEN. Yes. As I say, my criticism is I do not think that mark-up ought to be credited to the land.

Mr. WILLIAMS. It seems to me it makes no difference, because the man gets the value of it. I mean, if he gets credit of $150,000, whether it is attributed to the land or the building, the fact is he has made, by reason of his engaging in the project, $150,000 when he only had $50,000 invested in all.

Mr. HOLDEN. But might not this occur: That where the land costs $50,000, that really this man who puts in the land is also the organizer of the project, and he has spent many months in negotiating with

architects, contractors, with F. H. A. officials, and so on; he has had the original conception of this business enterprise and will undertake the management of it? Now, those services to the project are worth a great deal, are worth quite an appreciable amount to the project. By habit, he writes that into a land value. I would rather credit that in another account not attributed to the land. I think it is very likely that the project—we will say that the total "dollar" expenditure for construction, for land, for improvement of the grounds, and all expenses, architects' fees, and everything else, amounted to $1,900,000; I would say it might very properly be capitalized at $2,000,000, and permit it to earn on the basis of $2,000,000, giving credit to the organizing ability, the organizing activity, and the value created by the launching of a project, instead of looking at a piece of land, say, and a lot of bricks in a brickyard, and a lot of glass in a glass factory, and so on; and that the process of putting all of those together and initiating a business enterprise is entitled to a reward. Now, if that reward is in the capitalization, you merely say you are permitted to earn dividends on the basis of $2,000,000, instead of on the basis of $1,900,000, which is the sum total of dollars that was spent.

As I say, I think the attributing of that amount of mark-up to appreciation in the land is erroneous accounting; but I think there is a place for that mark-up based on the development—of the value added by the development.

The CHAIRMAN. I want to ask you why should there be necessarily any binding effect upon the appraisal accomplished by the price paid for a piece of property, one way or the other? There might be a case where it should be appraised for less than it cost; unless it is a part of the immediate construction, they do not always buy the land when they start the house.

Mr. HOLDEN. That is right.

The CHAIRMAN. I do not see why there should be an arbitrary rule that you have to put it at the cost price, or make the price above that, or limit it to the land alone.

Mr. HOLDEN. Right. I think that is another way of saying what I was trying to say.

Mr. WILLIAMS. Of course, I do not want to be understood as saying that the cost price, the price paid for the land, has anything at all to do with it.

The CHAIRMAN. No; I understand what you mean.

Mr. WILLIAMS. I am talking about the actual value of the land at the time the project was begun, and then having it put into the finished product at three or four times its value. I am very sure Mr. Holden understands what I am driving at.

Mr. HOLDEN. Yes.

Mr. FORD. Let us take the adjoining land, for instance, after the improvement goes up. Say they bought originally 50 acres for $50,000. You could not buy the adjoining 50 acres for $50,000 after this improvement is built, could you?

Mr. HOLDEN. Usually it cannot; but I think in the end what we are talking about is this: You must appraise the going value of the finished product, rather than being overly critical about the details that go to make up that value, as to cost and so on. If $2,000,000 is a good, sound, conservative appraisal of the going value, I think it

does not have to equal exactly the sum total of dollars required to buy the bricks, the mortar, and the land.

Mr. CRAWFORD. Mr. Holden, do you think it was the legislative intent of Congress that this 20 percent which was provided for should permit a capitalization of such a mark-up as you have here referred to?

Mr. HOLDEN. I think within reasonable limits it should; just as I think within reasonable limits Mr. Ford must mark up his car a bit in order to have a profit.

Mr. CRAWFORD. Let me ask you this: We created the Securities and Exchange Commission partly, we will say, to exercise supervision over the issuance of securities and to prevent the issuance of what some people term watered stock being included in the capital structure. Now is this stock, in effect—this element to which you have referred—an organization expense or watered stock, insofar as a stock-certificate dollar value is placed on the organization's skill and abiliy, and the bringing together of those various elements you have described?

Mr. HOLDEN. I think that is susceptible to abuse and it has been abused in the past. I think that depends on sound, conservative administration and an analysis of each project as to whether the amounts allowed or allowable as capitalization are reasonable and fair, and I think that depends on good business judgment by the Administrator. I do not think you can make any rule about it.

Mr. CRAWFORD. But you do feel this—I would like to have as definite a statement as you will give us on this—that the organizer, or dreamer, or fellow who conceives this project and makes it real, is entitled to a capitalization fee for his services.

Mr. HOLDEN. Yes; in lieu of other compensation.

Mr. CRAWFORD. Without committing your committee, I want to get your personal observation of this. I understood you to say that your committee has recommended to the Department of Commerce that the activities of the F. H. A. be continued for the purpose of assisting in bringing about additional recovery. Would you recommend it as a permanent institution of the Government?

Mr. HOLDEN. I think it is very difficult to say now whether it is needed as a permanent institution. It has been facilitating a transition through a critical period, to assist a change in our concepts of real-estate values and in our concepts of sound mortgage practice. We did not know 10 years ago what we were going to need today; I am not sure that we know now what the needs of 10 years hence are going to be. I think, in an important sense, it is experimental. I think the needs of the day say that the experiment should be continued and that possibly the thing Mr. Johnson suggested—that is, hat the mutual-insurance function might be taken over by private capital—might happen or that 5 or 10 years from now we will have more experience and a basis on which we could answer your question.

Mr. CRAWFORD. Would I be reasonably correct in assuming that your committee, then, somewhat approaches this F. H. A. element of your recommendations from the viewpoint that it is for the moment a means of helping get out of the temporary or present predicament?

Mr. HOLDEN. Yes.

Mr. CRAWFORD. And that you make your recommendations without having in mind anything with reference to its becoming a permanent institution?

Mr. HOLDEN. I say they believe it is sound, and the question of permanence has not been discussed.

Mr. SACKS. Mr. Holden, on this question of this write-up of the value of the land, it is not true that under the F. H. A. as set up, and the law, there is no actual money given to anybody in the way of profit, when the buildings are completed, by any institution insured by the Government?

Mr. HOLDEN. I believe that is true.

Mr. SACKS. That the only thing they get is a stock dividend; is that right?

Mr. HOLDEN. That is right.

Mr. SACKS. And, furthermore, the amount of money is limited, is it not, by the act and the F. H. A. policy and regulations?

Mr. HOLDEN. Yes; correct.

Mr. SACKS. Therefore, the only thing this man has is some stock—that is, after 20 years, if this is paid off, he would have that stock; and if it should not be paid off the Government would get the buildings, and, according to the act, they must be obtained at no greater than the construction value, and would also get the land; whether it is written up at $200,000 or $50,000, they get that piece of land?

Mr. HOLDEN. Certainly; the mortgagee, of course, has the first claim on the income, as well as the profit.

Mr. SACKS. That is right; therefore, if it is successful, he gets the land and that is the end of it; if it is not successful, the Government gets the building plus the land, and there is no loss regardless of the write-up?

Mr. HOLDEN. If this were set up so that they were going to make a quick turn-over and sell it quickly, it could be abused, as it has been a good many times in the past; but that is not in contemplation.

The CHAIRMAN. Thank you, Mr. Holden, for your statement.

Mr. Kraft, will you please come around. We have with us Mr. William Kraft, who represents the Home Builders Association of Philadelphia and Suburbs, and who would like to make a statement. We will permit you to make your general statement for the record, if you wish.

STATEMENT OF C. WILLIAM KRAFT, JR., ON BEHALF OF THE HOME BUILDERS ASSOCIATION OF PHILADELPHIA AND SUBURBS

Mr. KRAFT. My name is C. William Kraft, Jr. I represent Daniel G. Kelly, who is acting for the Home Builders' Association of Philadelphia and Suburbs.

Mr. Chairman, I wonder if I might have leave to offer in the record at this time a letter which is addressed, this one, to Mr. P. Allen Goldsborough, together with an exhibit which is appended to it, similar letters having been delivered at the desks of the other members of the committee this morning, and this not being directed directly to Mr. Goldsborough, but to the committee as a whole?

The CHAIRMAN. You may append that to your statement, if you wish, and there will be no objection. Of course it is all on this subject matter.

Mr. KRAFT. Yes: and the exhibit annexed to it deals directly with the question that is directly raised about the safety phase of the Federal Housing Administration.

The CHAIRMAN. We thank you.

(The papers submitted for the record by Mr. Kraft are as follows:)

AN APPEAL BY THE HOME BUILDERS' ASSOCIATION OF PHILADELPHIA AND SUBURBS FOR CONTINUANCE OF THE PRESENT FEDERAL HOUSING ADMINISTRATION EXTENSION

HOME BUILDERS' ASSOCIATION OF PHILADELPHIA AND SUBURBS,
Philadelphia, Pa., March 13, 1939.

Representative P. ALLEN GOLDSBOROUGH,
New House Office Building, Washington, D. C.

DEAR REPRESENTATIVE GOLDSBOROUGH: In your deliberations respecting the proposed extension of the National Housing Act, we respectfully request your thoughtful consideration of the factors involved that make the continuance of the act so vital, not only to the building industry, but to that of all industries allied to that of building.

At the outset we wish to point out that the reason for the original passage of the act, namely, to afford a method of financing that would stimulate building, thereby putting millions back to work, still exists. Nothing has happened since the passage of the act to justify the conclusion that the act may now be safely discontinued. No other agency has sprung into being that can or will take the place of F. H. A. financing, as now constituted. Trust companies, insurance companies, building and loan associations, Federal savings and loan associations, and other lending agencies will not lend up to 90 percent without the F. H. A. guaranty. Statute, charter, and conservative business mandates enacted through the years prohibit the lending of money with but 10-percent security.

The arguments, however, that dictate the policy of privately owned financial institutions do not apply to a governmental agency. If government is to endure, it must function in such a way that our people may not only have employment, but a place to live and in a manner that will foster happiness.

Though it be admitted that over a term of years some loss will result due to financing up to 90 percent of the value, the fact remains that the Nation's wealth is being enormously increased by the building of homes worth billions of dollars. Failure to continue the act, on the other hand, will result in tremendous unemployment, not only in the building industry, but in all allied industries that manufacture and supply building materials and supplies. Failure to continue the act will further make impossible an increase in employment which otherwise would result, as building is today just starting, as the demand far exceeds the supply.

Granting, for the sake of argument, that there may be some loss by reason of the continuance of the act, we contend that such loss to the Government would not be nearly as great as the loss occasioned by reason of the discontinuance thereof, due to the addition to the ranks of the building industry unemployed to P. W. A., W. P. A., and relief generally. May we illustrate:

The records of one of our members (and this is a typical case) show that during the past year 617 homes were sold in the Philadelphia area for $5,000 or under. Less than 10 percent of these prospective home owners could have purchased their homes without present F. H. A. financing. This data is made possible of ascertainment by a study of the credit reports of the respective purchaser, showing the available cash and/or securities on hand at the time of home acquisition. The cost of labor in a house selling for $5,000 is approximately $1,500—1,700 working hours at an average of 90 cents per hour. A discontinuance of the F. H. A. Act in this builder's case alone during the past year would have meant a loss of 550 otherwise available sales, and a resultant loss to labor in dollars of $1,500 (the labor cost of 1 house) times 550 unbuilt houses, or $750,000—besides a tremendous additional labor loss to the employees engaged in the manufacture of building materials and supplies of not less than $750,000, or a total labor loss of $1,500,000.

This same factor, in what we call an outstanding illustrative case, must be multiplied at least six times to give the complete and authentic picture of all new houses development in the metropolitan Philadelphia area from the time the F. H. A. liberalized amendments were enacted in the spring of 1938 to date—1 year. Thus the official records show new house construction of approximately 2,000 houses, plus, in the city proper, in the past year and a total of more than 1,900 new-house units in adjoining counties, making a grand total production of about 4,000 new houses for the greater Philadelphia area—therefore, the single-operative case, above referred to, should properly be multiplied by 6, which results in a grand total of 3,700 new houses out of 4,000 which would be adversely affected—making a total labor loss in dollars of $4,500,000 in direct construction at the job, and $4,500,000 additional and incidental labor loss at the source of supply, or a grand total labor loss of $9,000,000.

This situation above outlined, as applicable to the Philadelphia metropolitan section, is also directly applicable to all other comparable metropolitan areas in the Nation, with a slight variance perhaps in labor costs—any Member of Congress can take the official residential building figures of the district he represents and then, using the above yardstick, come very close to finding out what the termination of F. H. A. extensions will mean to the average buyer and the residential building industry in his or her particular community.

Major sources of supply, including basic materials such as lumber, stone, steel, copper, zinc, and other ingredients, it must be noted are in many cases far removed from the metropolitan center, in which new-house construction is most active and, therefore, these communities, which might be rated as supply centers will be disastrously affected likewise.

The great majority of new construction turned out by the members of this association is in the $6,000 and under price class. However, a substantial amount of new houses are being built and sold daily in price brackets ranging from $6,000 to $10,000, and in many cases on up to the peak $20,000 price range.

The future of this type of construction is inherently bound up with the ability of potential purchasers to first dispose of existing or older properties—in other words, there must be a constant, wholesome turn-over of what we call the resale market, in direct parallel to the manner in which the automobile industry and many large home equipment industries operate. For that reason it is absolutely essential that the facility for underwriting 80-percent loans, of 20-year term, be continued under the F. H. A. plan for so-called existing properties.

A survey of our members' 1939 spring building activity, proves conclusively what will happen if the F. H. A. Act is discontinued, and bears out the prediction outlined in the preceding paragraph relative to unemployment. Almost without exception the builders, members of this organization, are today, seeking options to purchase ground, the exercise of the option to depend upon whether or not the F. H. A. Act is continued in its present form by Congress.

We wish in conclusion to call attention to the fact that the Federal Housing Administration is functioning upon sound fundamentals. (We have outlined our reasons for so stating in exhibit A attached hereto and made part hereof.) As a result, the citizens have confidence in the value of the home purchased through its medium. Hundreds of thousands of new homes are needed in America today, particularly for the prospective purchaser in the lower bracket class with income of from $1,500 to $2,500 per year.

Abandon the act and the ability of our average American to own his own home is lessened 90 percent.

We respectfully request that you recommend to Congress, through this honorable committee, the continuance of the F. H. A. Act. Thank you.

Respectfully submitted,

HOME BUILDERS' ASSOCIATION OF PHILADELPHIA AND SUBURBS,
CARROLL SHELTON, *Executive Secretary.*

EXHIBIT A

1. THE SOUNDNESS AND SAFETY OF THE F. H. A.

The safety of the F. H. A. is a fact, based on the experiences of the past. This experience data has given us the following definite elements which have served to define the right and wrong of sound mortgage practice:

(*a*) *Safety in the rigid selection of borrowers.*—The selection of the borrower by the Federal Housing Administration with relation to earnings, stability of income, and personal integrity was unknown under any previous mortgage system. Even today, many lending institutions ignore the safeguards that are afforded by a rigid examination of the borrower. The borrower must satisfy the Federal Housing Administration—

(1) That he is not incurring more monthly expense than he can well afford to pay. In this connection certain limits have been definitely established. As an illustration of the scrutiny with which the Federal Housing Administration examines and weighs the borrower, it might be stated that where husband and wife are employed, the wife's income is not figured in ascertaining ability to pay.

At no time in the past has there been any attempt to so carefully scrutinize the true financial status of the borrower and his real ability to meet the obligation he is about to incur.

(2) That his income is steady and stable, that it has been continuous and regular for some time in the past and that it will continue to be so in the future.

In this connection it might be added that the Federal Housing Administration does not rely on any mere statements of the borrower as to his employment, but directly investigates with the employer, or if the borrower is in business, investigates the actual income figures of that business.

(3) That he is honest and has not defaulted on any of his obligations in the past.

(*b*) *Safety in the rigid selection and inspection of properties.*—Scientific planning of neighborhoods and careful analysis of subdivisions before mortgage commitments are made are an innovation with Federal Housing Administration. Prior to that a builder went ahead with his program of buying ground and building homes and then worked out the problem of financing the home buyer. Now all the planning and the analysis of the location for permanent financing is done in the first place. We are, therefore, avoiding the disastrous consequences of poorly located subdivisions and inharmonious neighborhood relationships.

Selection and inspection of properties covers:

(1) Location: In the case of existing homes to determine the future of the neighborhood and the safety thereof for mortgage insurance purposes.

As above indicated, on new construction, we have a new principle that has been introduced to the builder by F. H. A., namely the scientific analysis of his location before he starts to build.

Appraisals of ground values are no longer left to curbstone, hit, or miss valuators. The approach under F. H. A. is scientific and accurate, by a trained expert.

(2) Construction: On existing construction the property is carefuly examined with regard to structural soundness, age, and proper depreciation factors are used. The amount and length in years of the F. H. A. mortgage is based on this examination.

On new construction, the F. H. A. system covers the new operation from the soil up to the roof. No local or private mortgagee could possibly afford the complete scientific coverage of new construction by trained experts as is the case with a Federal institution like the F. H. A. A new confidence has been instilled in the buyer that has made the building and sale of new homes possible at a time when the need is great.

Remove the F. H. A. from the field of new construction, or curtail its activities in any way and the strongest factor in safeguarding the interest of the public in new construction has been removed and, with it, will go the present confidence of the public in the new home as a life investment.

(*c*) *Safety of the single-mortgage system.*—The greatest danger in the past in the entire real-estate picture has been the second mortgage. These second mortgages were written over first mortgages of fixed amount, and both mortgages were written without benefit of the scientific safeguards provided by standard F. H. A. procedure. The calling for payment of first mortgages throughout the country was the signal for the entire destruction of the second-mortgage superstructure.

(*d*) *Wide margin of safety of the Government due to low carrying charges on F. H. A. mortgages.*—

1. Low interest rates.

2. Low construction costs, low ground values, low financing costs, all due to prior deflation of last 10 years and to F. H. A. low interest and financing charges.

3. Taxes, insurance, and all charges are paid monthly.

4. The entire carrying charge, including amortization, is between 25 and 40 percent less than rental value, which provides a wide margin of safety if default should occur and F. H. A. would have to take the property over. Rental income would more than pay all charges, interest, and amortize the loan at a faster rate than even originally provided.

5. The low monthly expense on an F. H. A. mortgage affords double safety—

To the borrower, who can always rent the property at a figure larger than the monthly charge under F. H. A.; which provides a definite incentive to hold the property even if he meets with economic reverses;

To the Government—as the property can be advantageously disposed of to a new purchaser who will be definitely attracted by the low monthly expense of the mortgage—or the property can be held and all expenses more than met out of income.

II. WHAT WILL HAPPEN IF F. H. A. IS NOT CONTINUED IN ITS PRESENT FORM

(*a*) The market for new homes will be seriously impaired or entirely disappear due to—

1. The fact that purchasers will no longer be able to rely on F. H. A. scientific investigation and approval of new construction.

2. The fact that the purchaser will be placed in the position of having to go back to the old "two-mortgage system."

3. Construction standards will go back to the Jerry standards of a previous era.

4. Monthly charges will go up again due to higher interest rates that will be charged, plus sky-high financing charges on second mortgages.

5. Workers now engaged in construction and allied industries will be sent back to the relief rolls.

Analysis of unskilled workers on building operations showed that 60 percent were formerly on relief rolls and will go back forthwith if building activity is curtailed.

(The committee thereupon adjourned until tomorrow, Tuesday, March 14, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

TUESDAY, MARCH 14, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Gore, Mills, Martin, Folger, Gifford, Luce, Crawford, Kean, Sumner.

The CHAIRMAN. The committee will come to order.

(The committee had under consideration H. R. 3232.)

The CHAIRMAN. Mr. Schwulst, will you come around, please? How do you spell your name, please, sir?

STATEMENT OF EARL B. SCHWULST, VICE PRESIDENT, BOWERY SAVINGS BANK, NEW YORK CITY

Mr. SCHWULST (spelling). Schwulst.

The CHAIRMAN. And the initials?

Mr. SCHWULST. Earl B.

The CHAIRMAN. And your connection? You are connected with a bank?

Mr. SCHWULST. I am the first vice president of the Bowery Savings Bank, New York City.

The CHAIRMAN. You may proceed, Mr. Schwulst.

Mr. SCHWULST. Mr. Chairman, I do not have a prepared statement, but I have here a few notes from which I would like to make a few remarks.

The Bowery Savings Bank has some $600,000,000 of resources, belonging to something like 420,000 depositors, the institution being a mutual institution.

The Bowery Savings Bank is in favor of this bill, both with respect to the amendment increasing the total amount of insurance which the Federal Housing Administration might have outstanding at any one time, and also with respect to the extension of the Federal Housing Administration authority to insure loans on existing construction.

The Bowery Savings Bank in the beginning was not in favor of this Federal housing legislation.

Our board of trustees is a cautious and conservative group of men, and they were a little bit shy of any such legislation which involved the insurance of loans or the encouragement of the making of loans

by fiduciary institutions up to as much as 80 or 90 percent. However, we studied this legislation.

We came down to Washington and conferred with the officials of the Federal Housing Administration, and we decided to become an approved mortgagee. I think this was about 2 years ago.

It was still some months, however, before we began actively to engage in the purchase or making of insured mortgages. After our careful analysis of this legislation and conferences with the Administration officials here, and an examination of their methods, we became thoroughly sold on the soundness of this legislation, and we are now perhaps among the larger institutions about as active in the purchase and origination of insured mortgages as there is in the country.

I should like to give you a few reasons why we are interested in your favorable recommendation of this legislation of the pending bill.

First of all, we see in this Federal Housing Administration set-up certain very definite advantages to the home owners.

In the first place, I think the effect of this legislation is to operate as a curb on the jerry building of homes under the inspection set-up under this legislation and the very careful economic surveys made by the research department of the Administration, and the fact that the Administration has control over the appraisals of the property, and these appraisals cannot be influenced by competitive bidding for loans in the local markets. And in the next place, I think it affords the purchaser of homes a degree of protection which he has never had heretofore in this country, and that is a matter on which in our judgment encouragement should be given very heavy weight in the consideration of this legislation.

In the second place, there is an advantage to the home owner in the fact that under this legislation he can get cheaper financing than he has ever had before on his home mortgage. That is due to the fact that under the legislation there is no expensive secondary financing, which in the past has been quite a drain upon the resources of home builders.

That is one reason, gentlemen, why we are willing to go to the extent of purchasing 80 or 90 percent of these mortgage loans for the simple reason that we know that this economic drain on the home to the home owner represented by the secondary expenses of financing is out of the picture. It is a sounder set-up for him, the burden upon him is much less than it was under the old arrangement of a somewhat first expensive mortgage, and then the other expensive secondary home annex.

The third point is a scientific basis of liquidating this mortgage so he really has some chance of eventually becoming the owner of his home. That we think is very important.

Another advantage, and a very important one, in connection with which we have recently taken some action in our own bank, is the fact that the home owner gets cheaper financing under the F. H. A. program.

I assume you gentlemen have read recently of the reductions in the interest rate made by the Bowery Savings Bank on insured mortgages to home owners.

The prevailing rate had been 5 percent—the prevailing interest rate. About 10 days ago we announced publicly that we would make these loans at an interest rate of 4¼ percent per annum to the home owner, or a saving of three-fourths percent on the loan, which on a $5,000 loan, running for 20 years, amounts to something like eight or nine hundred dollars savings to the home owner. That is a very important consideration in encouraging the construction and purchase of homes.

Now, there are certain advantages to us as a lending institution in this legislation, and I want to point those out briefly, if I may.

In the first place, there is a pooling of risk in the F. H. A. set-up. The F. H. A., after careful selection and appraisal of all the underlying circumstances, insures homes scattered throughout the United States. That is an important thing to us and is a controlling factor in our being willing to purchase or initiate these mortgages up to an appraised value of 80 or 90 percent.

Then I have mentioned the fact that the control of the appraisal of the properties involves no competitive bidding institutions in the form of bidding up these appraisals in order to get the loan. The F. H. A. is not interested in that angle of it. They take an entirely disinterested view in arriving at the appraisals of these properties, because they are not putting out the money. That is a very important thing and we would like to emphasize it. It is quite important in these days that when you have really got a borrower's market for money.

Another advantage to us as a lending institution is the fact that it puts us in a position to compete more effectively with building-and-loan associations in the granting of home loans, building-and-loan associations generally throughout the country.

I think I am right about this: They can lend a larger amount of the appraised value of property than the mutual savings bank in my State, at least, can lend. Now it may be said, "Why don't you go to the legislature and get your law amended so you can lend up to 75, 80, or 90 percent?" I do not attach any importance to figures of this kind. I do not think there is any magic to 50, 60, 70, or 80 percent of the appraised percentage. At the same time, we have a good many institutions in the State who have to have a certain sort of rules and regulations to guide them, and it is for that reason we have these limitations in the law.

I would not be in favor myself of suggesting that our legislature give us the power to lend up to 75, 80, or 90 percent on these home loans unless I had, along with it, this pooling arrangement, which I have mentioned, where you have a pooling of risk all over the country and your machinery under the control of a disinterested group of people who are experts and know their business, and who are not swayed by what competitive influences among individuals might otherwise lead them to.

I want to emphasize that under this pooling feature in this F. H. A. set-up, the influence it has upon our judgment in being willing to go to 80 or 90 percent on these loans, and I think it is entirely safe under that set-up.

One other thing I should like to bring out is with respect to existing construction. I think that we should continue to have authority,

working through the F. H. A., to grant insured loans on existing construction, for two reasons, one of which is a general reason, and the other one that may be peculiar to our own State of New York.

The first reason is that I do not think there is any reason to discriminate between a new home owner on new construction and an owner of an existing house. If we are willing to grant a 4¼ percent rate of interest to the purchaser or builder of a home in New York State, why should we not grant the same rate of 4¼ percent to the owner of an existing home, if his house and other conditions meet the requirements of the Federal Housing Administration. I do not see any reason for any discrimination between the new home owner and the existing home owner.

In the second place—this is a reason which is perhaps peculiar to our own cities in New York State—under the F. H. A. insurance it provides, where the existing home owner has a mortgage, and he can meet the requirements and the regulations of the Federal Housing Administration, we are able to refinance that mortgage at a lower rate than the prevailing interest rate, because we can grant him an extension for a long period of time, say 20 years, which we are willing to do, with this pooling arrangement, which is provided for under the F. H. A. Act, and take his mortgage out from the existing moratorium in New York State. That is important to him and important to us. Because of the way things are up there now, a great many of the mortgages are overdue, because you know it has been the practice of the savings banks to make loans for 2 or 3 or 5 years, and we could not call those loans, and we do not want to, because of the moratorium which exists in New York State.

However, the home owner does not know when this moratorium legislation may be repealed. We know it is not going to continue on the books indefinitely, and the Governor of the State has indicated that he intends to get that legislation out of the way just as soon as it can be put out of the way, so there is an uncertainty hanging over the head of the home owner. He does not know when the props might be shot out from under him. We are perfectly willing with that thought to give him a reduction in interest, and really perhaps a very substantial reduction in interest, in many of these cases, even below 4¼, if we can get him on a scientific basis of liquidating his mortgage through an amortization program and under the insurance of the Federal Housing Administration, so as to be justified in granting him a long period of repayment.

I think that is a very important thing to the owners of existing homes on which we have mortgages at the present time.

I do not know, gentlemen, that I have anything more to say now, and if you have any questions that you would like to ask me, I should be very happy to try to answer them.

The CHAIRMAN. I want to ask you two or three questions. I want you to tell us about the moratorium you have on these debts in New York State.

Mr. SCHWULST. We have a mortorium put on some time, I think, in 1933, which prevents a mortgagee from foreclosing an existing mortgage for any reason except nonpayment of interest or taxes.

The fact that principal is past due does not give you any right to foreclose the mortgage.

The consequence is that many of these institutions have mortgages which have been past due now anywhere from 2 to 3 or 4 years. They are sitting idly by and they cannot do anything about it.

The CHAIRMAN. How long is the moratorium to operate?

Mr. SCHWULST. How long does it operate?

The CHAIRMAN. Yes. It has been extended from year to year ever since it was adopted?

Mr. SCHWULST. Yes; since it was first adopted.

The CHAIRMAN. But not for a longer period than 1 year?

Mr. SCHWULST. No; not for a longer period than 1 year.

Mr. FORD. As a matter of fact, what was your rate of interest prior to this? What was your rate of interest?

Mr. SCHWULST. You mean prior to it?

Mr. FORD. To the F. H. A.

Mr. SCHWULST. To the establishment of the Federal Housing Administration? The rate of interest varied, sir. It ranged anywhere from 6 percent down to 5, 6, 5¾, and 5½.

Mr. FORD. About 5½ average?

Mr. SCHWULST. Beg your pardon?

Mr. FORD. About 5½ average?

Mr. SCHWULST. About that, yes. We had some few mortgages less than 5 percent, but not very many.

Mr. FORD. If you put those on an amortization basis, we will say 4¼ percent, the payment of interest and principal would not be very much more than the interest payment, would it?

Mr. SCHWULST. Not very much more. In many cases we might be willing to cut it really even below 4¼ on existing loans to help the borrower work his situation out, that is, his new interest rate plus the amortization rate.

Mr. FORD. On an F. H. A. loan he pays his taxes and insurance every month.

Mr. SCHWULST. That is right.

Mr. FORD. He pays a small payment, and you can make him so that he would pay very little more than paying on the ordinary rate?

Mr. SCHWULST. That is right, and it takes the bother away from him.

The CHAIRMAN. What are the provisions of the moratorium act?

Mr. SCHWULST. I could quote you the act, but it says that any default in the payment of the principal on the mortgage, we may not foreclose.

The CHAIRMAN. But is it a State legislative provision holding that no mortgagee may foreclose?

Mr. SCHWULST. Except for nonpayment of taxes.

The CHAIRMAN. Except for nonpoyment of taxes?

Mr. SCHWULST. That is correct.

The CHAIRMAN. Has that been tested out in the courts?

Mr. SCHWULST. That I could not say, but the lenders in New York abide by it, anyway. I could not tell you whether it has been tested out or not. I could not tell you as to that.

Mr. FORD. What proportion of your assets are invested in mortgages?

Mr. SCHWULST. Approximately 2½ percent.

Mr. SPENCE. What portion is existing and what is new construction?

Mr. SCHWULST. The great majority is new construction, because the activity in loans has been considerably restricted due to the depression. As a matter of fact, we are becoming very active in this Federal Housing field at this time, and we would like to put out not less than $10,000,000 this year.

The CHAIRMAN. What percent of your existing accounts are delinquent?

Mr. SCHWULST. Are delinquent?

The CHAIRMAN. Yes.

Mr. SCHWULST. I do not know, Mr. Chairman; I do not have it in my mind.

Mr. FORD. None of them are delinquent as to interest, are they?

Mr. SCHWULST. Delinquent as to interest?

Mr. FORD. That is, you would have to foreclose if they did not pay the interest?

Mr. SCHWULST. My recollection is that of a total portfolio of some $265,000,000, there is about 4 percent delinquent.

Mr. SPENCE. Could you tell us definitely what proportion of your loans are made on existing construction and what proportion are made on new construction?

Mr. SCHWULST. A very great bulk on existing construction, because during the past 5 years——

Mr. SPENCE (interposing). What percentage did you say there is on existing construction?

Mr. SCHWULST. This is a guess. I should say probably 90 percent on existing construction. I am including loans on all types of property.

Mr. WILLIAMS. Would that be true about the same as to residential property?

Mr. SCHWULST. That is right.

Mr. WILLIAMS. About 90 percent?

Mr. SCHWULST. That is right.

The CHAIRMAN. Do you make these loans?

Mr. SCHWULST. Are you speaking of F. H. A. loans? Yes, sir; we make a great many of them directly, and a great many of them are secured in the open market.

Mr. WILLIAMS. When you purchase them do you buy them from local banks or lending agencies?

Mr. SCHWULST. Yes, sir; we have paid as high as 103 for some of these mortgages.

Mr. WILLIAMS. Do you sell them again?

Mr. SCHWULST. No, sir, we have not.

Mr. WILLIAMS. You have not sold any of them?

Mr. SCHWULST. We have not sold any of them.

Mr. WILLIAMS. What proportion of these loans did you purchase in the market?

Mr. SCHWULST. Again, I should have to give you not a figure I could vouch for as being accurate, but based entirely upon my impression. We have at this time—mind you, we have not been so very active in this field except in the last 9 or 10 months—in our portfolio, $1,300,000 of loans on one-family houses. That is under section 203, I should say, and about half of those have been purchased in the open market, and about half we originated.

Mr. WILLIAMS. Where is the market for them?

Mr. SCHWULST. There is a market in New York and a market pretty well all over the country, I think, but we have made all of our purchases in New York City.

Mr. WILLIAMS. Through whom?

Mr. SCHWULST. Various dealers.

Mr. WILLIAMS. Who are they? What class of people? What brokers? Who are they that are handling these mortgages?

Mr SCHWULST. Do you mean the names of these people?

Mr. WILLIAMS. Yes.

Mr. SCHWULST. I could not recall the names. I do not recall.

Mr. WILLIAMS. Who are they, individuals or institutions?

Mr. SCHWULST. Individuals and institutions.

The South Shore Trust Co. we bought some from, and the Baldwin National Bank out on Long Island, which is an institution, and we have bought some from firms who were dealers and brokers who were individuals.

Mr. WILLIAMS. Did you go to them for them, or do they advertise and say they have got F. H. A. mortgages? How do you get in touch with them? That is what I want.

Mr. SCHWULST. They know we are in the market. That spreads around through various ways. They come around to see us and we call them up on the telephone.

Mr. WILLIAMS. What territory does your bank cover there in its operations?

Mr. SCHWULST. Under the law we can lend money anywhere in New York State. As a matter of fact, we have not loaned outside of Manhattan, Bronx, Kings, Queens, Nassau, and Westchester Counties.

Mr. WILLIAMS. In making these loans do you charge a commission?

Mr. SCHWULST. Do we charge a commission?

Mr. WILLIAMS. Yes.

Mr. SCHWULST. No, sir.

Mr. WILLIAMS. Do you charge anything except interest and premium?

Mr. SCHWULST. When we originate a loan?

Mr. WILLIAMS. That is what I am talking about, when you originate it.

Mr. SCHWULST. The borrower pays the cost of his title bond for examining the mortgage, pays the recording fee and the F. H. A. appraisal cost.

Mr. WILLIAMS. About what does that amount to, what percent?

Mr. SCHWULST. On a $5,000 loan, that would run, I should say, about 1½ percent, possibly 2 percent.

Mr. WILLIAMS. Is that paid in cash or is it amortized in the loan?

Mr. SCHWULST. There are two ways in which that is done. The home owner or buyer may pay cash out of his pocket. In the case of some builders they add that cost to the price of the house and it is covered in the mortgage.

Mr. SPENCE. Do you require the borrower to furnish title insurance?

Mr. SCHWULST. Yes; we do. We must have title insurance in every case.

Mr. SPENCE. Do you make any loans under 207?

Mr. SCHWULST. Oh, yes; we have. We are disbursing at this time on loans that will aggregate when the disbursements we now have are complete, $1,600,000.

I have in process, that is, in process of being committed, on getting tentative commitments from the F. H. A., about $3,000,000 more of loans under section 207.

Mr. SPENCE. You made all of those loans direct?

Mr. SCHWULST. Yes. And with one exception; there is one loan of $500,000, a building loan, that has been made with the Manufacturers Trust Co., but on a commitment with us to take F. H. A. insurance.

Mr. SPENCE. Have you purchased any other loans under 207?

Mr. SCHWULST. No others have been originated by us.

Mr. SPENCE. What did you do under 210?

Mr. SCHWULST. We have had no operations under section 210.

Mr. WILLIAMS. You make your own individual appraisals for the property?

Mr. SCHWULST. Yes; we do. We do not buy these loans across-the-board, so to speak. We make the same careful appraisal of every piece of property that applies for an every-day loan as we would if there were no F. H. A. insurance.

Mr. WILLIAMS. That appraisal is entirely separate and independent of the F. H. A.?

Mr. SCHWULST. Yes; that is entirely separate and independent of the F. H. A.

Mr. WILLIAMS. How do your appraisals compare with those of the F. H. A.?

Mr. SCHWULST. Our appraisals up to this time have checked pretty well with the Federal Housing Administration. There has been some difference as to the items which go to make up the appraisals. We have found out in these differences sometimes that they have agreed with us, and sometimes we have agreed with them, but in the aggregate they have been pretty close.

Mr. WILLIAMS. But you make your loans based upon your own appraisals?

Mr. GIFFORD. Did you ever refuse one?

Mr. SCHWULST. Did we ever refuse one?

Mr. GIFFORD. Yes.

Mr. SCHWULST. Yes, sir.

Mr. GIFFORD. That had been presented to you by the F. H. A.?

Mr. SCHWULST. Yes; we have.

Mr. GIFFORD. On what basis?

Mr. SCHWULST. Because we did not like the location of the property.

Mr. GIFFORD. Did you think they used poor judgment in those cases?

Mr. SCHWULST. Not necessarily.

Mr. GIFFORD. Why did you refuse them?

Mr. SCHWULST. We might have the same loans in that particular territory and we might have the same thought about that territory as the F. H. A. had.

Mr. GIFFORD. Any other reason?

Mr. SCHWULST. No; I think that is about the only reason.

Mr. GIFFORD. What is your present expense for foreclosing in New York? That is one thing we should try to find out here.

Mr. SCHWULST. I should say in our experience it has run in the neighborhood of about 5 percent on the mortgage.

Mr. GIFFORD. Is not there an established fee of $300 or $500 that they used to have? What did they mean when they used to say $300 or $500 to foreclose in New York?

Mr. SCHWULST. Your attorney's fees are in that, and these attorneys have different fees, but I am giving you about the average as I recall it. I should say it would run around 5 percent of the mortgage, including everything.

Mr. GIFFORD. Do you think about $250?

Mr. SCHWULST. About $250.

Mr. GIFFORD. Is not that rate exorbitant. If there is a moratorium on the principal and you can foreclose only because they have not paid interest or taxes and if it is to cost that sum to foreclose, you do not foreclose very often, do you?

Mr. SCHWULST. We try to be as generous as we can with the borrower, and do not foreclose on him just because we have an opportuinty.

Mr. GIFFORD. Under this act how much do you allow in foreclosing expenses?

Mr. SCHWULST. Under this F. H. A. Act?

Mr. GIFFORD. Yes. Do you not know how much you are allowed?

Mr. SCHWULST. How much we are allowed to cover the cost?

Mr. GIFFORD. Are you not familiar with that?

Mr. SCHWULST. I do not recall.

Mr. GIFFORD. You said in your opening statement you were convinced as to the soundness of this.

Mr. SCHWULST. I am.

Mr. GIFFORD. Particularly the soundness as an investment for your bank. That is what you mean, looking at it from your standpoint?

Mr. SCHWULST. That is right, absolutely. And I am also convinced it is a sound thing for the home owner. I think the proof of that is that he is getting lower rates of interest than he ever got before.

Mr. GIFFORD. I have not seen one of your mortgage blanks for New York City. I would like to see one very much. Is there anything written in there which allows the mortgagee extra expense caused by foreclosure? Can you levy on him? Of course, you have a deficiency and a liability upon him, I presume?

Mr. SCHWULST. As a matter of practice, the deficiency judgment is something very difficult to resort to under the existing procedure up there in our courts, and under the existing legislation. The court has to be shown the fair value of the property, not necessarily what it may be sold for, and the foreclosure has to show that the fair value of that property is less than the mortgage before you can get a deficiency judgment, and that is a pretty difficult thing to establish.

Mr. GIFFORD. I should almost feel that the small mortgagor in New York State was pretty well undercover. Do you not think that he is amply protected because of the moratorium, the cost of forclosure being so high?

Mr. SCHWULST. He does not know how long the moratorium is going to last. He does not know that it is the policy of the officials

of the government of the State to get rid of this moratorium just as soon as we can do it.

Mr. GIFFORD. But you have had it since 1933?

Mr. SCHWULST. But the Governor has made a recommendation to the legislature in his last message that they give serious consideration to some means as to breaking the termination of this legislation.

Mr. GIFFORD. Mr. McDonald stated that he wants to stop insuring existing mortgages this year and presented a forceful argument last year on that, and we assumed he meant it.

Mr. SCHWULST. Do you not think that the lives of the mortgagors are involved, in that they would like to have a very comfortable situation and have this sword of Damocles removed which is over his head?

Mr. WILLIAMS. Never mind him. He is in the scientific group, and I agree with your information as to him, but I am wondering about your other opinion.

Mr. SCHWULST. I think it is a most excellent one for him.

Mr. GORE. You stated that you had made loans under section 207.

Mr. SCHWULST. That is right.

Mr. GORE. Some of us are quite interested in the views of all of the men who have had experience in the large-scale projects under 207, about the writing up of real values incident to the development of the project. Have you any experience, and what is your opinion on that?

Mr. SCHWULST. When you speak of writing up the value of the land, is that what you are talking about?

Mr. GORE. Yes; the real value.

Mr. SCHWULST. Do you mean writing it up as against the cost of the land?

Mr. GORE. Correct.

Mr. SCHWULST. We do not think that the cost of the land is a matter of any particular importance. We ofttimes do not know what this land has cost the builder, and we have no way of finding out.

We try to value the building and the land as a completely developed proposition and look at from the standpoint of its ability, its ability to pay the interest and the amortization on the loan, and that is the governing factor in determining its economic value as an economic unit.

I anticipated that that question would be asked. I brought down with me at random three apartment-house loans that we made in New York City, in the Bronx, without housing insurance, with no question on them at all; just ordinary savings-bank loans. In one of those cases we knew that the owner had paid for the land $24,000. When we got through appraising that property ourselves as an economic proposition to determine the mortgage we could safely put on that property within legal limitation to be liquidated over a period of time we valued that land more than twice what the owner paid for the land.

Mr. GORE. That was not for F. H. A. insurance.

Mr. SCHWULST. No, sir; that was not for F. H. A. insurance; but the cost of the land is a matter we think would be something we did not know anything about and have no way of finding out about it.

Mr. GORE. In making loans under 207, in arriving at your appraisal, do you take into consideration the cost of the land?

Mr. SCHWULST. I have just said ofttimes we do not know what it is. We have not any way of finding out and we do not particularly inquire about it. We look at the value of this property as a completely developed going proposition.

The CHAIRMAN. All right.

Mr. GORE. There is one more question I would like to ask him, Mr. Chairman. I wonder, from your experience, if you have an idea as to the number or the percent of applications for new construction under the F. H. A. plan or from people who own existing residential property.

Mr. SCHWULST. Let me see if I get your question correctly. You mean the number of applicants for dwellings——

Mr. GORE (interposing). For new construction.

Mr. SCHWULST. Dwelling loans on new construction?

Mr. GORE. Correct.

Mr. SCHWULST. Who already own homes?

Mr. GORE. That is right.

Mr. SCHWULST. No, sir; I have no information on that at all. I would not be able to make even a guess.

Mr. CRAWFORD. What does the law say shall be in your portfolio, as briefly as you can say it?

Mr. SCHWULST. What is that?

Mr. CRAWFORD. What does the law say shall be in your portfolio, as briefly as you can give it?

Mr. SCHWULST. Mortgages on improved urban real estate and the real estate we have taken over in the foreclosure of mortgages and certain bonds we are authorized to invest in.

Mr. CRAWFORD. What type of bonds—municipal?

Mr. SCHWULST. Municipal, State bonds, bonds guaranteed as to principal and interest by the Government, direct Federal bonds, and certain public-utility and railway securities.

Mr. CRAWFORD. And no other industrials?

Mr. SCHWULST. Now, just recently, under an amendment to the act, are some four industrial debenture issues which our banking board now has authority to approve for investment and which that banking board has approved.

Mr. CRAWFORD. If through some occurrence we should have a changed policy and there should come about great industrial activity and the flotation of very large sums of new capital—and when I say large sums I mean from 5 to 10 billion dollars per annum, new financing strictly—and there was a great demand for the use of capital, and interest rates went up 75 or 100 percent generally, would you still be in a frame of mind where you would want to go out and refinance the present mortgages you now hold? On a considerably reduced interest rate?

Mr. SCHWULST. Yes, sir; I certainly would.

Mr. CRAWFORD. Although you had a chance to put your funds out in these other legal portfolio issues?

Mr. SCHWULST. I am talking about refinancing on loans we have already in our portfolio and not talking about loans which we might make in the future.

Mr. CRAWFORD. And also if the value of the property moved up in accordance with other industrial activity, would you still be interested?

Mr. SCHWULST. We would be interested in refinancing these mortgages, because we would like to put them on a basis where they are gradually going to be paid out.

Mr. CRAWFORD. If there is a considerable advance in market price, there is no question about their being paid out.

Mr. SCHWULST. I should hope not.

Mr. CRAWFORD. If you had increased rates of interest on all securities and the general cost of interest went up with the industrial activity, and real estate moved along accordingly, you would not have any concern about not being paid some day.

Mr. SCHWULST. Under those same circumstances I would say "no."

Mr. CRAWFORD. In other words, your condition would be changed if you had conditions somewhat different as I related to you.

Mr. SPENCE. I have just one question. In refinancing loans on existing construction, what proportion of the existing properties had subordinate, second, or other mortgages?

Mr. SCHWULST. On existing construction there are no doubt many instances where there is a junior lien of some sort. We do not know from our records in all cases whether there is a junior lien or not. Of course, that would be revealed in the event their first mortgage should be refinanced under the Federal Housing Administration, and that second mortgage would have to be taken care of in some way, because there could not exist a second mortgage with F. H. A. insurance.

We might find it possible to make advances for that—that is, where there was an F. H. A. appraisal and our appraisal which were justified, we might find some means of making advances in order to clean that up.

Mr. SPENCE. Your records will show how many junior liens are on them.

Mr. SCHWULST. A great many of these liens have been in our portfolio for some time, and since we are not primarily concerned with the second lien or mortgage our records do not show in some cases.

Mr. SPENCE. What proportion would you say?

Mr. SCHWULST. Frankly, it would be a sort of a guess. I would not want to make a guess because I do not know.

Mr. GIFFORD. I have a very pointed question there. If you could get these mortgages insured, how would that interfere with the moratorium?

Mr. SCHWULST. If we can grant the mortgagor an extension for a definite period of time—say 20 years, or 15 years, whatever it may be—that automatically takes his mortgage out, out of the moratorium.

Mr. GIFFORD. Then every month a certain portion is reduced on the principal, is it not?

Mr. SCHWULST. That is correct. He would be paying more than he is now, and that payment would cover his interest as well as his principal.

Mr. GIFFORD. And that would get away from the moratorium.

Mr. SCHWULST. Yes, that would get away from the moratorium.

Mr. GIFFORD. I think this is the last question: How long would you allow a mortgagor not to make any payments? Within 30 days, of course, it becomes liable to foreclosure.

Mr. SCHWULST. That is correct.

Mr. GIFFORD. How long would the F. H. A. let you be lenient to the mortgagor before you foreclosed?

Mr. SCHWULST. I think the Federal Housing rules and regulations are law; on that I am not sure, but I think they probably give some 90 days.

Mr. GIFFORD. Is that all?

Mr. SCHWULST. I stand to be corrected, because I do not know.

Mr. GIFFORD. Those you take direct you grant a mortgagor more than 90 days, do you not?

Mr. SCHWULST. It would depend upon the circumstances. Some of them we would not give more than 30 days.

Mr. GIFFORD. But you would have to be governed by the rules and regulations of the F. H. A.?

Mr. SCHWULST. Yes; we would have to be governed by the rules and regulations of the F. H. A.

Mr. GIFFORD. So the ability of the mortgagor would not be taken into consideration.

Mr. SCHWULST. We would have to be governed by the law.

Mr. GIFFORD. My question simply applies to the mortgagor as compared to his present condition.

Mr. SCHWULST. I understand that.

The CHAIRMAN. All right, Mr. Schwulst; we thank you for your statement.

Mr. SCHWULST. And I thank the committee.

The CHAIRMAN. Mr. Fahey, will you come around, please. We shall be glad to hear Mr. John H. Fahey.

STATEMENT OF HON. JOHN H. FAHEY, CHAIRMAN OF THE FEDERAL HOME LOAN BANK BOARD

Mr. FAHEY. Mr. Chairman and gentlemen of the committee, when I appeared before the Senate committee a week ago to explain the opinions of the Federal Home Loan Bank Board concerning S. 1097, a number of questions were raised concerning facts you would like to have us present, and I beg to offer that information today. Preliminary to its presentation, since newspaper reports of the last hearing have led to some misapprehension as to the attitude of our Board concerning this legislation, I would like to clear up any possible misunderstanding.

In expressing its views concerning this proposed legislation, in response to the inquiry of the Bureau of the Budget and the request of the chairman of the House Committee on Banking and Currency, the Federal Home Loan Bank Board presented its judgment based upon its experience in the operation of the Home Owners' Loan Corporation and its observation of present conditions nationally in the field of urban mortgage financing.

It has been suggested that our Board was opposed to any further insurance by the Federal Housing Administration of loans on urban homes. We hope it is clear to this committee that we have taken no such position.

The Federal Housing Administration insurance has contributed in a very important way toward the revival of new construction, the encouragement of more liberal mortgage lending, the modification of

interest rates, the wider use of the amortized loan, and greater stability in mortgage lending. Our feeling is, however, that the time has now been reached, because of the active competitive situation which has developed between mortgage lending institutions, when the insurance of mortgages on old homes is no longer necessary and that all of the resources and energies of Federal Housing Administration should be concentrated on insurance of soundly made loans for new construction and the promotion of employment.

Unemployment is one of the greatest recovery problems with which the country has to deal. The construction industry is one of our greatest sources of useful employment. We, therefore, think that every effort should be devoted to stimulating such employment through the modernization and repair of existing homes and the construction of new homes. It is our judgment that there is no necessity for continuing to insure loans which the various classes of lending institutions now hold because, generally speaking, throughout the country the lending institutions have an abundance of funds. They are ready and willing to renew and refinance such loans and at lower interest rates. The competition which has developed in the last year and a half between lending institutions is so keen that general rates today on loans that are at all worthy are ruling at 5 to 5½ percent. In many cases even lower rates are being made. No employment is involved in refinancing loans on old homes.

It may be advantageous to continue the insurance on existing homes where they are acquired by new owners, but it seems to us that the remaking of old loans to the same borrower is no longer a responsibility that the Government needs to assume.

With the elimination of such loans it seems to us clear that the present Federal Housing Administration authorization of 3 billions of dollars is enough to carry the operation for the next 16 months and, indeed, well into the fall of 1940. During the year 1938 Federal Housing Administration accepted for insurance $647,949,074 of loans of all kinds. A certain proportion of mortgages accepted for insurance failed of closing finally and did not become premium-paying mortgages. During January of this year the amount of mortgages accepted for insurance was $42,217,800. With the dropping of insurance on old homes except in the case of new purchases, it seems apparent that during the next year and a half Federal Housing Administration can double the amount of business for 1938 and Congress could well consider at its next session how much further insurance of individual loans may be carried with advantage to the country since they involve commitments for many years to come.

The British Government provided for direct cash subsidies to encourage the building of new homes at moderate cost, but within 2 years, if my memory serves me right, with the improvement of economic conditions, it was able to drop these subsidies entirely. Thereafter the construction companies, cooperating with the building societies and in energetic competition took over the task, and home building in Great Britain surged forward at such a rate as to attract world attention.

SAVINGS

For decades the urban homes in this country have been built out of the accumulation of the small savings of the great mass of our people. In 1921, when we built 449,000 new family units, the total savings of the country in our institutions amounted to but a little over 21½ billions of dollars.

It is now well over 50 billions of dollars or nearly two and one-half times the figure for 1921. In spite of the contraction of business and national income, in 1937 the total savings figure was approximately 30 billions more than the period before 1921, when we were building homes actively all over the country. Our savings figure today is the highest in the history of the United States. The increase in 1937 was nearly 3 billion dollars over 1936 and was the largest increase in any year since the 1929 crash.

In 1937 we saved a billion and a half dollars more than we did in 1929, notwithstanding the fact that our national income was 67 billions of dollars compared with a peak of 78 billions of dollars in 1929.

We have at our disposal today 70 percent more savings available to build homes than in the years when we were providing new homes at a record-breaking rate.

SAVINGS AND NEW BUILDING

As a result of the 1920 depression, home construction dropped quickly to 300,000 from 460,000 family units the year before. For many years the figure of annual construction had been about a half million family units. As soon as things began to turn for the better at the end of 1920, there was a resumption of home building, and without insurance or any other help, from the 300,000 figure of 1920 construction jumped to 449,000 units in 1921, and by the end of 1922 was up to 676,000.

After the 1929 panic the trend was steadily downward, and we reached the low of 55,000 in 1934. It will be observed that after the 1920 panic, because there was a real shortage of homes, as employment was resumed and savings began to accumulate again, home building increased.

Following the year 1934, the figures were as follows:

1935	144,000
1936	282,000
1937	289,000
1938 (estimated)	347,000

When our experiences since 1930 are considered, as well as the contraction of 1937, it is a question if the building of new homes is not proceeding about as fast as we may reasonably expect. When we began to recover from the 1920 difficulties, home building increased in the following year by 149,000 units, or 50 percent. In 1921 it increased 376,000 units, or about 140 percent over 1920.

In 1935 it will be noted that our increase over the low figure of 1934 was nearly 100 percent; 1936 was five times 1934; 1937 showed the same percentage of gain over 1934, notwithstanding the business hesitation of that year; 1938 was six times over the 1934 low figure.

As I ventured to suggest when I last appeared before this committee, the financial situation in the United States is today completely changed from that of the fall of 1933 and the spring of 1934, when the plan for insurance of home mortgages was projected. In 1933 the monetary gold stock of the United States was valued at

about 4 billions of dollars. In 1933 more than 4,000 banks had suspended payments or closed. The closed banks alone had total deposits of over 3½ billions of dollars. At present the gold stock of the country is but slightly under 15 billions of dollars, our banking situation is stronger than any country has ever seen, and our savings have broken all records.

INTEREST RATES

A suggestion has been made that questions are being raised as to the desirability of Government insurance of home loans as a permanent policy because it prevents certain classes of mortgage lenders charging unduly high interest rates. I wish to emphasize the fact that the Federal Home Loan Bank Board has no such thought in mind and would lend no encouragement to such a development. It believes that free and fair competition, on a basis of equality, between all classes of mortgage-lending institutions should be encouraged and safeguarded and is greatly in the public interest.

There is no doubt that unduly high interest rates and other charges made in connection with the granting of home mortgages in the period before 1929 placed an undue burden on a great number of our people. It should be remembered, however, that not interest rates alone but poor planning, poor construction, and inflated appraisals contributed to the expansion of an unduly large mortgage debt quite as much, if not more, even than high interest rates. Interest rates on home mortgages, however, have now dropped radically consistent with the decline in loaning rates in many other directions. The great accumulation of available mortgage money cannot be overestimated as an influence on this situation, quite aside from the operations of F. H. A. and H. O. L. C.

It is easy to be misled as to the significance of the interest rate in its relation to the making of a home mortgage. There is a very real difference between the "nominal" interest rate and the "effective" interest rate. This is well illustrated in the case of title I loans under F. H. A. In this case the popular idea is that the rate on a modernization loan is 5 percent, but as Mr. McDonald, Administrator of F. H. A., has made clear, the actual cost on a loan averaging 30 months is 9.72 percent. As a result of regulations made last month, the F. H. A. "effective" interest rate on one class of title I loans—those up to $2,500 for the building a new house—has been reduced to 6.69 percent.

In the case of home mortgages the nominal rate of, say, 5 or 5½ percent does not tell the whole story because of initial service fees or brokerage fees frequently imposed. Such fees, in addition to other costs which may be absorbed in the loan, result in increasing the "effective" or real rate of interest.

Take the typical $4,800 loan—that is, an 80-percent loan on a $6,000 home—with a basic rate of 5 percent and a premium charge of one-half of 1 percent on the reducing balance. The total cost of carrying this loan for 15 years would be $2,259.61. For 20 years it would be nearly $1,000 more, or $3,124.27. The effective interest rate in this case is 5½ percent. If, however, as is so frequently the case, there is an initial service fee of 1 percent and a brokerage fee

of 3 percent, then the total cost for carrying the loan for 15 years would be $2,451.61 and for 20 years $3,316.47. The effective interest rate on the 15-year basis would be 6.14 percent and on the 20-year basis it would be 6 percent. It will be observed, however, that the borrower has actually paid on the 20-year loan $864.86 more than his loan would have cost him if he had paid it off in 15 years. If the borrower paid a brokerage fee of 5 percent in connection with making the loan, the cost would be $2,595.61 for a 15-year loan and $3,460.47 for a 20-year loan. The effective interest rate on the 15-year loan would be 6.48 percent, and on the 20-year loan it would be 6.28 percent. These cases do not give consideration to appraisal fees, title search, and recording costs. With the addition of such charges, the real interest rate would be higher.

Public misconceptions regarding interest rates are common. It will be recalled that only recently the Federal Trade Commission issued an order against certain automobile companies because of advertising which led the public to believe that new cars could be bought on a deferred-payment plan which involved only 6 percent interest. The nominal rate appeared to be only 6 percent, but the actual rate was nearly double that figure, as I recall it.

Depending upon the amount of mortgage money available in the market and the desire of institutions or individuals to dispose of either new or old properties, interest rates as low as 3 percent are being made by mortgagees at present in some sections of the country. The home buyer does not realize in some cases, however, that the apparently very low interest rate is more than offset by the inflated value placed upon the home he buys as a result of an exaggerated appraisal. There came to the attention of the Federal home loan bank only recently a case where loans were being made on the basis of 3 percent interest for 5 years and 5 percent thereafter, but the fact was the home buyers were actually paying $700 to $800 more than the fair value of the property and the enticingly low interest rate was being offset by a large margin.

In the last analysis there is no way to control the fixing of interest rates on home mortgages except as a result of the competitive activity of mortgage lenders. If there is a shortage of money for home mortgages and going rates of interest are high, mortgage-lending institutions will not have loans insured at 5 or 5½ percent. They will lend their money at market rates and take their own risks. If there is an abundance of money the rates will go down, and those who seek high rates cannot get the business.

The largest group of mortgage lenders in the country are individuals. They today hold, and for years have held, more than one-third of the urban home mortgages of the country. They are not eligible to make insured mortgages. They meet the competition of the lending institutions and loan their money freely. In 1929 individual lenders held $7,000,000,000 of the total $21,664,000,000 mortgage debt outstanding.

The savings banks of the country are very large mortgage lenders; so are the insurance companies, trustees, and mortgage companies; and there is no way to control the rates of these lenders except fair and honest competition. The question has been raised as to whether the Federal Home Loan Bank Board could not provide that money

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borrowed by individual institutions from the Federal Home Loan Bank System could be loaned to individual borrowers only at rates limited by the Board. This would appear to be a very doubtful policy. It is hardly practicable to provide that the Federal Reserve System shall insist that commercial banks shall not lend to borrowers for home mortgages, or other purposes, except at rates which the Federal Reserve Board shall prescribe. It is doubtful if privately owned banking institutions would accept such a restriction. Certainly they could not then compete, in the making of mortgage loans, with individual mortgagees and other classes of lenders who are not likewise limited in the charges they make.

It would not seem fair that commercial banks owned by stockholders who enjoy the profits accruing on their stock should be given an advantage over mutual institutions where interest or dividends accrue to the benefit of millions of workers who are entitled to receive a fair return on their money, if we are to encourage thrift.

Section 203 of Title II of the National Housing Act recognizes that in insuring loans there must be some latitude as to interest rates because of the varying risks. The section referring to the 5-percent rates provides that it shall not be to "exceed 6 percent in certain areas or if under special circumstances the mortgage market demands it." When to this 6-percent rate there is added the one-half of 1 percent insurance-premium charge, as well as brokerage and other charges, it will be seen that the law recognizes the fact that it is impracticable to impose a flat 5-percent rate, irrespective of risks.

That brokerage fees paid in connection with mortgage loans are an important factor in considering the cost of mortgage money to the borrower and that such charges affect the rates on insured loans as well as others is indicated by the number of insured mortgages which are sold. Of the insured mortgages made by commercial banks through September 30, 1938, 140 millions were sold, and the banks simply made a commission and presumably will receive a service fee for servicing the loan. Mortgage companies which made $188,000,000 of insured mortgages to September 30, last, sold 118,000,000 of them, or 63 percent of all of the loans they insured. Federal agencies bought 72 millions out of 317 millions sold by originators.

The building and loan associations as of the same date made $188,206,000 of insured loans and sold $24,691,000 of loans. For the most part these transactions represented a brokerage business, and the commissions involved were a part of the cost of the loan to the borrower.

A net rate of 5 percent to the lending institution on a sound mortgage is probably as low as it is wise to have rates in most sections of this country for some time to come. In all types of institutions the 50 billions of dollars of savings in the country represents over 100,000,000 accounts. The average cash value of life-insurance policies is $300. The average savings and loan association account is $916. The average mutual savings bank deposit is $675, and the average national bank savings account is $416. These sums represent the week-to-week and month-to-month small savings of workers to a very large extent.

The rate being paid on savings in the areas where most of the money is concentrated is now down to 2 to 3 percent. In some cases it is only 1½ percent. Certainly the workers of the country who save

are entitled to a reasonable return on such savings, and we can hardly expect the return to them to go much lower than the present level without real discouragement to thrift. In the case of the life-insurance companies, since their return on the highest class of bonds today is very low, if they cannot invest in a substantial number of sound mortgages to yield about 5 percent they cannot continue to accumulate the reserves required by law and pay the dividends to policyholders which they have been paying. The net result would be that the cost of life insurance would rise.

Practically all of the States have laws limiting the interest rates which can be charged on mortgages. There is a wide variation in these laws, but even in the States where for many years there has been an abundance of money available for mortgage investments the State limits have been fixed high enough so that loans can be made in second- and third-class neighborhoods, where the risk is higher and values are declining.

Hundreds of thousands of mortgage loans ranging from $800 to $1,500 and $2 500 are made all over this country not only on existing homes but on new homes. They are usually long-term monthly amortized loans to people of very moderate incomes. The cost of handling such loans and for caring for collections is, of course, much higher than on the better-class loans. Aside from this the risk as far as the responsibility of the borrower is concerned is very much greater. If the lending institutions, all classes, and particularly the country banks, savings banks, and saving-and-loan associations, were by law prevented from lending at a rate above 5 percent, these worthy borrowers would be deprived of any opportunity of borrowing at reasonable rates and would have to go to the loan sharks or private lenders, who would impose much higher charges, or they would be unable to get the money at all.

There is and has been no substantial differences between the rates made on home mortgages by the various classes of institutions. Surveys which have been made show that the rates of commercial banks for the same kinds of urban mortgage loans have been the same as those of insurance companies, mutual savings banks, saving-and-loan associations, and mortgage companies. Rates on short-term loans for 60 percent of the value of homes have been less than those for longer periods and a higher percentage of value. Some institutions have been unwilling to loan except in selected areas. Under these conditions, rates have been lower than for loans of corresponding amounts in more risky localities. Country banks located in the smaller communities have usually charged higher rates than banks in the cities. This has also been true of other classes of institutions loaning in the smaller cities and towns.

The general decline in mortgage rates, however, has progressed steadily since the beginning of 1936.

In publicity recently issued emphasis is placed upon the fact that a large New York savings bank has announced its willingness to lend 10 millions of dollars this year on insured mortgages at 4¼ percent. The suggestion is made that this may have the effect of bringing mortgage rates generally down to approximately the same level. It is to be noted, however, that the savings bank referred to is willing to make this rate only on "approved applications." They will not

accept any insured mortgages offered to them but will select those which they feel are safe irrespective of the insurance. The actual cost to the borrower on these loans will be 4¾ percent when the premium of one-half of 1 percent is added.

This is a higher rate than the average rate of return on new mortgage loans made by this bank during 1936 and 1937. The average return on new mortgage loans in this institution in 1936 was 4.46 percent and in 1937, 4.41 percent as shown by its own reports. Very few of these loans were insured by this particular institution. During 1938 all the mutual savings banks in the country made but between 11 and 12 million dollars of premium-paid insured loans. Half of these were made by the mutual savings banks in Kings, Queens, and Nassau Counties in New York. A large proportion of these institutions decline to make loans whether insured or not outside of certain selected areas A chart showing the mortgage interest returns of the Bowery Savings Bank of New York covering the last century was recently published with the authority of that institution.

It shows that in the periods of money scarcity and high rates the bank received 6 to 7 percent on first-mortgage loans. The rate never went below 6 percent until 1880. It was 6 percent in 1920 and was but slightly below that during the decade from 1920 to 1930. It was down to 4 percent a few years ago and is now up to about 4½ percent. In 1929, when rates were high, it was almost 6 percent. I beg to submit for insertion in the record the chart to which I have referred, which was published by the Savings Bank Association of the State of New York last August.

(The chart referred to may be found on file with the committee.)

Rates below 5 percent have not been uncommon in New York, and in other sections where there is plenty of mortgage money available for new construction or loans on existing homes which represent fair value. One of the Federal associations in New York has been offering loans on a 4-percent basis on long term plans for a loan period. There are many sections of the country in which savings banks, building-and-loan associations, commercial banks, and other lending institutions are offering excellent homes which they have been obliged to take over with only 5-percent down payments and in some cases no down payment at all when the borrower was a desirable risk. These loans in almost every case are made on a long-term amortized basis.

MODERNIZATION LOANS

I have suggested that title I providing for the guaranteeing of modernization loans should not expire on July 1, 1938, but should continue at least another year. Such a continuance would be consistent with the primary intent of the National Housing Act—to encourage employment. It has many important advantages. It enables home owners to repair, modernize, and improve their homes and thus protect their equities by maintaining values as against the competition of new construction. If those who now own and are paying for homes are unable to keep them up or modernize them to meet present-day demands, the value of their homes is sure to decline as compared with new and more attractive construction. The result is

likely to be a loss to such home owners of the savings they have put into their homes.

It is well to modernize and improve homes within city and town limits where utilities are already available. It is also important to cities and towns that valuations on properties within their limits shall be maintained on a reasonable basis. This protects the community income as against the loss which is suffered when such homes steadily decline in value with an inevitable drop in tax income, while new construction outside the city or town limits yields no taxation. In the development of new housing throughout the country it is important to maintain a reasonable balance between fair values for existing property as compared with the creation of new facilities. Otherwise one undermines the rental income and value of the other.

That modernization, even on very old properties, if intelligently done, yields excellent results is demonstrated by many examples. In Philadelphia, one enterprising operator has bought more than 300 units, generally of the 5-room type, at an average cost from $1,000 to $1,500. He has reconditioned them intelligently and is able to rent them at an average of approximately $20 a month, or $4 a room. In some cases the rent is as low as $3 per room. Vacancy has averaged less than 2 percent, and the properties have yielded an excellent income to their owner after allowing for an annual depreciation of 5 percent and after all city and State taxes are deducted.

There are large numbers of houses in our cities and towns which can be rehabilitated at reasonable costs and with excellent results to owners.

The opinion has been expressed that the high rate of interest which borrowers have to pay on modernization loans and the short time within which they must be repaid have militated against the expansion of this business. The F. H. A. has reported that on the average these loans have been limited to 30 months, and the actual rate of interest has been almost 10 percent, or 9.72 percent. The loans average less than $500. On the loans made during 1938, it has been reported that the loss has been but six one-hundredths of 1 percent. From the beginning down to the present, it has been figured by F. H. A. at not more than 1½ percent.

In comparison with this, under title II loans for 25 years are being made at a rate of 5 percent with the premium of one-fourth of 1 percent, making the total cost to the borrower 5¼ percent. These are essentially long-term loans. A loan of but 30 months is a short-term loan.

On the properties which F. H. A. has foreclosed and sold the average loss has been 16.6 percent against the average premium-paying loan of $4,168, through to the end of 1938. It seems reasonable to suggest that the rate of interest on guaranteed modernization loans should be reduced. It has been recommended that a premium be charged on these loans. It would seem fair to do this and that a premium of one-half of 1 percent, the same as charged on a long-term risk like the 80-percent loan could well be fixed.

APPRAISALS

When I appeared before the Senate committee a week ago, some questions were asked as to what appraisals were made under the di-

rection of the Federal Home Loan Bank Board. I thought the question was directed to appraisals on individual loans made by institutions which are members of the Federal Home Loan Bank System, and I said that we did not make such appraisals. I should have explained that, while the regional Federal home-loan banks do not check the appraisal when a member institution makes a loan, we do check carefully the loans made and the soundness of appraisals behind them when the examination of an institution takes place.

Every institution in the membership is examined at least once a year, and we have authority to examine at any other time if it seems desirable to do so. If we find any loans which seem doubtful we provide for such appraisals by independent and qualified appraisers as are necessary to satisfy us as to the valuations against which loans have been made. If any of them are wrong, the condition has to be corrected.

In the same way if any collateral presented to one of the banks seems to represent doubtful value we would provide for appraisal immediately. The number of appraisers employed on a fee basis for any appraisal work for the banks or the Corporation has been reduced radically as a result of our experience in the Home Owners' Loan Corporation operation. We found it necessary to eliminate thousands of so-called appraisers because they were not qualified for responsible work. We conducted appraisal examinations of applicants all over the country during 1934 alone. Of 6,000 who applied, less than 2,000 could be rated as satisfactory or accepted. The question of sound appraisals is a fundamental one to the making of sound loans and the rigging of appraisals in order to increase the amount of a loan and the alleged value of a piece of property offered for sale was a common practice in the period before the depression. It has not yet been entirely eliminated in the country.

No matter how much care is exercised in the making of mortgages, it is difficult to prevent overappraisals which result in losses. It is an inevitable part of the experience of every lending institution. The question is how large the losses may be.

Undoubtedly the Federal Housing Administration has tried to exercise every care to prevent overappraisals in connection with the loans it has insured. So did the Home Owners' Loan Corporation. Nevertheless, on the properties which it has acquired and sold up to the end of last year the average net loss to the Federal Housing Administration per property was $692.70 against an average premium paying insured loan of $4,168.

This slightly higher than the net $638.65 loss on Home Owners' Loan Corporation properties through the end of 1938. In the latter case the losses were aggravated, of course, not only by original overappraisal but by the fact that delinquent borrowers were carried for a long time before foreclosure. The original Home Owners' Loan Corporation loans were made, not on the basis of market values, but of a very liberal appraisal and the borrowers were delinquent 2 years on their old mortgages and 3 years behind on taxes when the loans were made. Insured loans, on the other hand, are, of course, supposed to be made on the basis of a fair present-day market value.

The point is that, whether it be on old loans or newly made and supposedly sound loans, appraisals may be very misleading and losses surprisingly high.

HOLDINGS OF REAL ESTATE

A question was asked at the hearing last week relative to holdings of real estate by lending institutions and the effect of such holdings on their lending capacity.

As a result of the difficulties which have arisen since 1930, all classes of lending institutions have had more foreclosures than for many years, and consequently acquired more property. The number and value of homes they have acquired was, however, in proportion to the home mortgages they held, irrespective of other kinds of real estate on which they had loaned money.

Mutual savings banks and insurance companies took over a lower percentage of urban homes because their volume of such mortgages was smaller. Commercial banks acquired a slightly smaller percentage of urban home properties in proportion to the home mortgages held by them than savings and loan associations. This was due to the fact that the latter class of institutions confined their lending almost exclusively to home mortgages and to a much higher percentage of value. On the other hand, commercial banks, insurance companies, savings banks, and mortgage companies acquired by foreclosure very substantial real estate holdings in office buildings, hotels, apartment houses, and industrial properties.

There has been a steady decline in the real estate of all kinds held by the mortgage lending institutions since 1936, although the volume is still substantial.

The importance of real estate in possession of financial institutions depends upon its real value and earnings, but the amount held by all classes of institutions has very little influence on their ability to meet the needs of borrowers because of the large amount of free mortgage money now available.

TRENDS IN HOME MORTGAGE INDEBTEDNESS SINCE 1929

According to the estimates of the Federal Home Loan Bank Board, the total volume of mortgage indebtedness against one-fourth of family nonfarm homes stood at $21,664,000,000 at the end 1929.

Trends since then may be summarized as follows:

(1) In 1932 and 1933 there was a precipitous decline of a billion and a half dollars a year in the home mortgage debt. This decline was due principally to four factors. There had been a great increase in home mortgage foreclosures, the largest in the history of the country. Simultaneously the volume of new mortgage lending dropped sharply. The regular reduction by amortization of outstanding loans also contributed to reduction of the total figure. In addition, lending institutions called great numbers of good loans where foreclosure was unnecessary and insisted that borrowers reduce the amounts of their loans and accelerate amortization.

(2) Since 1933, the decline in the home mortgage debt has been gradual. It was slowed down during 1934 and 1935 as a result of the large volume of loans refinanced by the Home Owners' Loan Corporation. During 1936 and 1937 the decline in outstanding home mortgage debt was comparatively small. The preliminary estimates for 1938 indicate a rise from the preceding year to about $17,600,000,000.

It is evident that the contraction of business in 1937 contributed to the decline in that year over 1936. The making over of a gradually increased proportion of home mortgages to the monthly or quarterly amortized basis tends to reduce the volume of refinancing. The notable decline in the number of foreclosures has also contributed to this situation.

(3) It is impossible to say how much of the present $17,600,000,000 of home mortgage debt represents mortgages which were outstanding in 1930. During the past 5 years loans amounting to $12,000,000,000 were written and most of these loans are still outstanding. An additional amount of $6,000,000,000 of new loans were written from 1930 to 1933. From these facts taken in connection with the decline in foreclosures and in the increase in amortized payments it is clear that only a comparatively small percent of the $21,700,000,000 of urban home mortgage debt in 1930 is still outstanding. Although most houses which were mortgaged in 1930 are still mortgaged, the obligations have been reduced and refinanced on the average for a longer term basis.

(4) The estimated mortgage debt against one-quarter family nonfarm homes by years has been as follows:

1929	$21,684,000,000	1934	$18,145,000,000
1930	21,953,000,000	1935	17,754,000,000
1931	21,404,000,000	1936	17,409,000,000
1932	19,981,000,000	1937	17,308,000,000
1933	18,434,000,000	1938	17,600,000,000

The home-mortgage debt of the country increased with great rapidity from 1921 to 1929. Up to 1920 it was less than 9 billions of dollars. It more than doubled by 1929. In 1925, when we built 937,000 new dwelling units, the total mortgage debt outstanding was $13,643,000,000. Real-estate speculation and the increase of mortgage debt from 1921 to 1929 was as conspicuous as security speculation. All classes of lending institutions increased their volume of loans. The commercial banks, for example, which had a total of but $800,000,000 of home mortgages in 1925, increased 56 percent in 1926, and recorded another 48 percent increase up to $1,850,000,000 in 1927. They increased their holdings to $2,500,000,000 by 1929, and then dropped to $1,189,000,000 in 1934. At the end of 1937 the commercial banks held $1,400,000,000 of home mortgages or $450,000,000 less than 10 years before.

Insurance companies, mutual savings banks, and savings and loan associations all increased by very large margins up to 1929. Increases of the commercial banks and savings and loan associations were, however, much greater proportionately than the life-insurance companies or the mutual savings banks.

The expansion of the mortgage debt from 1921 to 1929 undoubtedly represented serious inflation of values and the speculation which attended it would have caused serious national difficulties irrespective of the troubles that developed elsewhere in our financial system. Unquestionably the mortgage debt of the country today is on a much sounder and safer basis.

Mr. Chairman, in response to your invitation, I am very glad to appear this morning and just as in the case of our similar response to the Senate committee, to try, as far as I may, to answer any questions that the committee cares to ask, or offer any explanations which you feel should be made.

The CHAIRMAN. Mr. Fahey, I think I can perhaps accommodate you, and probably the convenience of the committee, by making you a suggestion, and that is this: I think perhaps it would suit your purposes and the committee, if you would limit your discussion to the matter of the insurance of loans on existing construction. If you have further suggestions you desire to make, we shall be glad to have you do so, but otherwise I suggest you proceed with the discussion of that question.

Mr. FAHEY. I will be very glad to do that, or to answer any other questions.

So far as the insurance of loans on existing homes is concerned, the opinion of our board is that with the steadily declining demand for the insurance of refinanced loans—it has dropped now from something like 64 percent of the business of F. H. A. to about 30 percent—the decline in interest rates throughout the country, and the anxiety of lending institutions to hold on to their loans, there is no longer any good reason why such loans should be insured. On the other hand, we believe it is highly desirable that F. H. A. should devote all of its energies and resources to the original objective of this insurance plan—the stimulation of new construction and improvements.

I think everyone recognizes that the unemployment problem in this country is one of our greatest problems. There is no employment involved in refinancing a loan now held by an institution. On the other hand, there are opportunities for great developments in new construction and in modernization.

It is apparent that the present intense competitive efforts between institutions in their attempts to get loans away from each other have created a good deal of confusion, and have involved an unnecessary assumption of risk on the part of the Government, through F. H. A. insurance of such loans.

We find some of the institutions in the Federal home-loan bank system taking loans from the other lenders and insuring them when there is no good reason for doing so since the other institutions are ready to renew them on the same terms because they have money in abundance.

We have at our disposal far more of mortgage money than the country has ever seen in the past, more than twice what we had when we were at the very peak of home building in this country.

The question is how far the Government is called upon to go in guaranteeing profits to private interests as against the reasonable control of fair competition.

It has been suggested with reference to the insurance of loans on existing homes that that if it was eliminated, entirely, it would be a disadvantage to new purchasers of existing homes. That would be a valid objection to suspending completely that particular provision of the law. It could be met, easily however, by providing that a loan made in connection with the purchase of an existing house by a new owner could be insured. The other question of insuring the renewal of a maturing loan to the same borrower is quite a different matter it seems to us. If an institution holding a loan on an existing home

was unwilling to refinance it on a fair basis, I mean if it was trying to exploit or take advantage of the borrower, it would not be difficult to provide that it could be insured when transferred to another lender. It seems to us, however, quite unnecessary to continue the insurance of existing loans which the institutions are ready and anxious to renew, and where the attitude simply is:

It costs us nothing to insure it. The borrower has to pay for it, and that being the case, we might just as well have the Government insure it for us and get that additional protection.

There is one other factor involved in the question of old loans, as well as new loans, and that is the incident of brokerage fees and other charges. As you gentlemen are well aware, there is great confusion on the subject of interest rates. There is a great difference between a "nominal" interest rate and the real or "effective" interest rate. The latter takes into consideration all charges made in connection with a loan. The former does not. Brokerage and all other charges have to be figured when we attempt to determine the real interest rate being paid on a loan.

You have just listened to the vice president of the Bowery Savings Bank, and a reference has been made to their recent announcement of a 4¼ percent rate on F. H. A. loans. Perhaps some of the members of the committee are already familiar with the Bowery Savings Bank's study of its fluctuating interest rates for more than a century and the recent publication of a chart indicating those fluctuations.

I have some of those charts here, if you care to have them.

As Mr. Schwulst has made clear to the committee, the actual loan cost is not merely a matter of a nominal interest rate but what the rate may be representing all costs to the borrower. In this particular case the total cost to the borrower with a 4¼-percent rate, when we include the insurance premium, is 4¾ percent. As a matter of fact the Bowery Savings Bank's average rate in 1933, without insurance of loans by the F. H. A., was down to 4 percent, and has recently averaged 4½ percent without insurance. The Bowery makes loans only in selected areas where risks are negligible. Higher rates are charged by every class of institution in the country on loans in areas where the risk is greater, in the second- and third-class neighborhoods and elsewhere.

Mr. Chairman, if there are any other questions on the subject that you care to ask, I will be glad to try to answer them.

Mr. BROWN. I would like to ask the witness one question.

The CHAIRMAN. Yes.

Mr. BROWN. Do you believe that if we had had the F. H. A. in 1932, we would not have had need for the H. O. L. C.?

Mr. FAHEY. I do not. The conditions were such at that time that H. O. L. C. was unavoidable.

I think our important problem in connection with housing development is to prevent the necessity of another H. O. L. C. at some time in the future.

Mr. BROWN. Do you not think that would probably be prevented if we continued the loans on existing homes?

Mr. FAHEY. What is that?

Mr. BROWN. Do you not think we could probably prevent it if we continued the loans on existing buildings? If we continued under

title II to make loans on existing buildings, I do not see any need for any H. O. L. C. in the future.

Mr. FAHEY. It would all depend, I think, Mr. Congressman, on what happens so far as real-estate speculation and undue expansion are concerned in the years ahead of us.

What I think is not generally realized is the fact that from 1922 to 1929 our speculation in real estate and homes was about as hectic as it was in the stock market. During that period we had rising interest rates on home mortgages, inflated values, and overbuilding. We overbuilt in many sections of the country, and we are still suffering from it. There is still the undue proportion of real estate in the hands of all kinds of institutions.

Mr. BROWN. Do you think we are overbuilding now?

Mr. FAHEY. Oh, no; not a bit of it. There may be some sections where we have begun to overbuild, but in the country as a whole I would not say so. We have a considerable distance to go to make up our housing shortage.

The CHAIRMAN. Of course, if we contemplate adequate housing facilities for the people of the Nation, we are far from overbuilding.

Mr. FAHEY. Yes; but, Mr. Chairman, there is a lot involved in providing adequate housing for our people.

The CHAIRMAN. I know you are not speaking solely from that standpoint.

Mr. FAHEY. It is not merely a question of financing or of interest rates. While those are very important incidents, they are only a comparatively small part of the housing problem in this country. We must contemplate many other adjustments. We must make very much greater progress than we have yet in better planning, better construction, better appraisals, lower cost of materials, lower unit labor costs, and greater cooperation among all those engaged in the housing industry. In my judgment the sooner all of the interests involved concentrate their attention upon providing better homes, at less cost, the better off we will be.

The CHAIRMAN. It would be all right if we could enlarge the purchasing ability of the people of the United States, too, would it not?

Mr. FAHEY. That is a part of the problem which is in turn influenced by the revival of construction. In my judgment, the sooner the private enterprises interested in housing devote a little more thought to what they can contribute, and rely less upon having profits guaranteed to them, the better our situation will be.

Mr. CRAWFORD. Mr. Fahey, I was very much interested in your statement, in which you made reference to the competition that exists between lending institutions. Do you think that competition between lending institutions is moving in the direction of the competition which existed in commercial banks and the combination of commercial and savings banks some years ago, in saying what they would pay to depositors for money on daily balances and so forth?

Mr. FAHEY. I am glad to say that the element of combination among mortgage lending institutions is unimportant. There is danger in it wherever it is indulged in. The savings institutions throughout the country have been and are beng obliged to reduce the rate of interest that they are paying to depositors in savings banks,

or to shareholders in building and loan associations. The lower rates of return on money loaned are beginning to affect the life-insurance companies in the reduction of dividends. Lower returns on mortgages and absolutely safe security investments are affecting all these institutions. They cannot get enough spread to cover adequate operating costs without reducing what they pay depositors, shareholders and to policyholders.

Many savings banks and many commercial banks are now paying only 1½ percent and 2 percent to the millions of workers whose savings provide the money to build homes. It is very easy to go too far in that direction and discourage thrift.

There is no doubt that the borrower ought to have the advantage of the general reduction of interest rates. Exploitation should be prevented. We ought to do everything in our power to prevent that.

You can however force the interest rate down to the point where there will be no adequate return to those who provide the funds. It must be remembered that thousands of intitutions make loans in small amounts, $500 to $1,200, to those who are referred to as small people on houses representing but a low value. The risk on such loans and the cost of handling them is very much greater than it is on larger loans, and they have to charge a higher rate of interest.

Mr. CRAWFORD. You refer to life insurance. Then if the interest on policies and return is further reduced, that has the effect of increasing the cost of insurance?

Mr. FAHEY. Yes; the cost of insurance. The investments of the life-insurance companies aside from mortgages is largely in triple A bonds and the highest grade of securities. Such bonds and securities represent very little return, slightly more than 3 percent. It is important to the insurance companies to have in their portfolios as many good mortgage loans yielding 5 percent that they can get hold of. That is also true of the mutual savings banks, commercial banks, and all other classes of mortgage lenders.

Mr. CRAWFORD. Going back to your statement with reference to competition. In other words, these institutions are reducing the amount of interest which they pay to the depositor.

Mr. FAHEY. That is true.

Mr. CRAWFORD. We are moving in that direction very rapidly.

Mr. FAHEY. That is right. And let me interrupt to say in some cases they certainly should.

Mr. CRAWFORD. On the other side of the picture they are bidding against each other in order to obtain these mortgages, and that has been testified to here this morning, and paying as high as 103 for them.

Mr. FAHEY. In some cases.

Mr. CRAWFORD. In some cases. And does that extend to individual depositors, the thrifty person, the person who saves in bills a reservoir to be subsequently invested is being crowded out of the picture which exists by the lending institutions in their attempt to build up their institutions?

Mr. FAHEY. I would say the earnings on his mortgages are being reduced. The interest return varies somewhat in different parts of the country, but it is substantially lower.

The other point to which I referred a moment ago, the question of brokerage and the sale of insured mortgages by the institutions to R. F. C. and the Federal National Mortgaging Association is something to which the committee might well give some consideration.

Mr. CRAWFORD. In your statement which you sent to the committee I find this interesting paragraph, which is very brief:

> In 1937 we saved a billion and a half dollars more than we did in 1929, notwithstanding the fact that our national income was 67 billions of dollars compared with a peak of 78 billions of dollars in 1929.

What do you think is the primary cause of that increase in saving?

Mr. FAHEY. Of course, there are a variety of reasons.

Mr. CRAWFORD. Make it as brief as you want to make it.

Mr. FAHEY. Two I think are substantial reasons. So far as small savers are concerned, I mean the workers, so many of them were badly scared by the experiences from 1930 to 1933 that when they began to enjoy the advantages of reemployment, they began to save faster than before.

We had what I think is an interesting bit of evidence of this in the case of H. O. L. C. Despite the decline of business in 1937, we did not feel it appreciably for many months. Our borrowers kept up their payments just the same. We really did not begin to feel it until 1938. Then it disappeared very quickly. We are now back to as high a point of collections as against billings as we ever were.

The other thing is that so far as people of substantial means are concerned they increased greatly the savings they placed in commercial banks. Another important factor, is the great amount of money that came back from hoarding. At the end of last year there was still a billion and a half of dollars in hoarding in this country.

Mr. CRAWFORD. This $1,500,000,000 which you have mentioned, does that include the savings that come into baby bonds?

Mr. FAHEY. Yes; all kinds.

Mr. SPENCE. How many pieces of residential property does the Home Owners' Loan own now?

Mr. FAHEY. We have about 100,000.

Mr. SPENCE. When you sell them, how do you help the prospective buyers?

Mr. FAHEY. We have to meet the market in selling them. We sell them for a certain amount of cash down, and spread the rest of it over a series of years, just as other lending institutions do.

Mr. SPENCE. What is the appraised value of your property?

Mr. FAHEY. We have approximately 100,000 properties and the total value on our books—that is, not merely appraised values but accumulated deficiencies, taxes, and so forth—is, roughly, $500,000,000.

Mr. SPENCE. What effect will the insurance of existing mortgages of the F. H. A. have on the properties you now hold?

Mr. FAHEY. That is difficult to say so far as existing houses are concerned. It will have some. We would be more likely to feel the effects of insurance on new construction because of the temptation to our borrowers to abandon the homes on which we hold mortgages and take new ones.

Mr. GIFFORD. How much do you ask down, a small payment on a $6,000 home? How much is the payment?

Mr. FAHEY. We have been rather fortunate on that, Mr. Congressman. I think our average down payment for the country up to the end of last year was somewhere around 15 percent. It varies and goes to 5 or 10 percent in some cases.

Mr. GIFFORD. You do not ask 20 percent, of course?

Mr. FAHEY. Loans have been paid off in full to the extent of $105,000,000. Of course, most of them were refinanced by various institutions, and this could not have been done at a rate higher than the H. O. L. C. 5-percent rate.

Mr. GIFFORD. We would have been very glad to find a customer who was willing to take a loan after putting out a small amount of money if he had a good promise of taking care of it.

Mr. FAHEY. Yes; but, of course, with all the lending institutions it is always a question in selling property whether it is not better to sacrifice on the price and be sure they are out, rather than take 5 or 10 percent down and the balance over a long period.

Mr. SPENCE. I am talking about a new customer.

Mr. FAHEY. About a what?

Mr. SPENCE. About a new customer.

Mr. FAHEY. Even with a new customer that applies. Institutions all over the country are selling properties at 5 or 10 down, and even nothing down, depending upon the reliability of the borrower.

Mr. SPENCE. We have had these large life-insurance companies and these savings banks wanting us to continue this insurance, and I want to ask you if a borrower goes to one of these savings banks for an insured loan, and they send an appraiser to him, does that appraiser to your mind represent an officer of the bank, if the borrower wants to pay for the appraisal fee for the appraiser? Is he an independent appraiser or is he connected with the bank? Does the bank itself get any brokerage fee or any money from the appraisal beyond the interest rate?

Do you get my point? I have been informed some banks have their own particular appraiser on it.

Mr. FAHEY. That is true; but, generally speaking, I do not think it would be the case that the institutions would make anything out of appraisals.

Mr. GIFFORD. On these insured loans, do you not think that the borrower usually has to pay a brokerage fee? What would that brokerage fee be, perhaps, on a $6,000 loan?

Mr. FAHEY. I think it varies according to the regulations of F. H. A. I am not sure what the brokerage fee is under present regulations, but the brokerage charge for the arrangement of a loan may run from 1 to 5 percent, ordinarily.

Mr. GIFFORD. Exactly. The average is 3. Three percent on a $6,000 loan is $180, is it not?

Mr. FAHEY. Something like that.

In the statement presented before the Senate committee, because of the necessity for clearing up a misunderstanding relative to nominal and effective interest rates, we figured and presented those figures on a $5,400 loan, as I recall it.

Mr. GIFFORD. I am trying to connect the borrower with a lending institution. I want to know to whom the borrower pays the appraisal fee, to whom he pays the brokerage fee, and who benefits thereby.

Mr. FAHEY. Usually he pays the brokerage fee to the real-estate operator or broker, or somebody outside.

The CHAIRMAN. Let me interrupt just a moment. You say, in speaking of the brokerage fee, the person conducting this transaction. What kind of a transaction are you talking about?

Mr. FAHEY. I assumed the Congressman refers to the borrower who wants to get an 80- or 90-percent loan on a $6,000 house.

Mr. GIFFORD. An insured loan on a $6,000 house; yes.

The CHAIRMAN. Is it true that on these insured loans there is a brokerage fee over and above the appraisal fee and insurance?

Mr. FAHEY. I cannot say.

The CHAIRMAN. You and Mr. Gifford are discussing the matter as if such fees are charged. We do not have such information. I would like to know what the facts are. We are interested in that.

Mr. FAHEY. Of course, it is assumed that the institutions of all classes which have transferred and sold F. H. A. loans which they originally made and no longer have the benefit of the interest paid on them, looked for their profit to the brokerage fees involved in making and selling these loans.

Mr. GIFFORD. You have evidence that they pay premiums.

Mr. FORD. That is not anything like 5 percent. It is 1 percent in most instances. The bank will turn over a mortgage, paid them 5, and they will turn it over at 4½ or 4¾ percent.

Mr. CRAWFORD. Mr. Fahey, we understand that a brokerage fee is paid for getting these mortgages.

Mr. FORD. Jesse Jones does that.

Mr. CRAWFORD. On a $6,000 loan you have stated there is $180 fee. You have had a lot of experience with appraisals, have you not?

Mr. FAHEY. Yes.

Mr. CRAWFORD. And in your experience you have come upon some very unfortunate conditions where property was being appraised, of course?

Mr. FAHEY. We found a very large number of appraisers throughout the country without qualifications and experience for proper appraisal work.

In 1934 we conducted examinations and tests of some 8,000 appraisers. Out of this number only 2,000 could be continued on the list as qualified.

Mr. CRAWFORD. In court cases with real estate the appraisals differ so much it would seem both sides ought to be disqualified. We sometimes recognize that.

With your long experience in appraisals, do you think that is one of the important matters under this housing proposition?

Mr. FAHEY. I think the whole problem as it affects the making of mortgages throughout the country is very important. In Great Britain appraisals are by professional men, classified like public accountants. They have to be licensed and certified or they are not permitted to appraise property.

Mr. CRAWFORD. When you first started in, not only were you careful as possible about property but property had to be put in such

a shape that the banks in every instance had to lose some, is that correct?

Mr. FAHEY. That is correct.

Mr. CRAWFORD. The average loss on foreclosures was only 16 percent?

Mr. FAHEY. No.: Perhaps you have that confused with the F. H. A. figure. It runs about the same. Let me see if I can give you the correct figure on that.

Mr. CRAWFORD. We are having a very, very difficult proposition. Excuse me.

Mr. FAHEY. The average loss on properties which F. H. A. has sold up to December 1——

Mr. CRAWFORD (interposing). The F. H. A. is what you are talking about?

Mr. FAHEY. Pardon me.

Mr. CRAWFORD. The F. H. A. is what you are talking about?

Mr. FAHEY. Yes, sir. Up to December 31 it was $692.70, which is about 16 percent plus on the average loan of $4,168.

The average loss by the Home Owners' Loan Corporation has been $638.65. That loss, and I presume it is the same in the case of the F. H. A., includes accrued taxes, interest, or delinquent interest. And of course with our average foreclosure the delinquency ran 2 years and the taxes 2 years before we foreclosed.

Mr. CRAWFORD. What we are worried about here is the matter of appraisals. Even though your loss is about as much as you say, this is a new thing. They have not had the long experience yet that you have had. Furthermore, we have run up against here the appraisal of land values, and with your long experience do you think a rise in land values of three or four hundred percent is justified in making appraisals?

Mr. FAHEY. Three or four hundred percent?

Mr. CRAWFORD. Yes.

Mr. FAHEY. Of course, that would apply on new construction, I take it?

Mr. CRAWFORD. Yes.

Mr. FAHEY. There are two points of view relative to that problem. One, that it does not matter if the property will bring a reasonable return on the appraised price and provide safety for the mortgage. That, however, depends upon what proportion of the supposed value the mortgage represents. Then there are those who take the opposite view that such write-ups should be eliminated. They contend that any write-up has a very definite relation to the value of the mortgage in that if the value of land is greatly inflated, higher rents must be charged, and there are elements of danger in it so far as the holder of the mortgage is concerned.

Mr. GIFFORD. Here is a concrete case where property was bought for $73,000. The revenue stamp disclosed that, although we knew they put more revenue stamps usually on than the property costs. You cannot prevent that under the law, and they do it.

If that is true that it cost $73,000, and then it was marked up next day to $300,000, do you think it is in the realm of possibility that that should be condoned?

Mr. FAHEY. You mean it cost $73,000 one day?

Mr. GIFFORD. And then they marked it up the next day to $300,000.

Mr. FAHEY. And then the next day it was valued at $300,000?

Mr. GIFFORD. Yes. They represented to you that the land cost $300,000, although it cost only $73,000.

Mr. FAHEY. I would think that was a pretty generous mark-up.

Mr. FORD. At the present time I think that is unusual. I am not condoning this case. I know of a lot where I paid $1,200 for it within the last year, and I offered $6,500 for that lot in 1926 and could not buy it. But I bought it from a bank less than 2 years ago at $1,200. When I had to get a loan they said, "Do not put that in for less than $3,000. That is what that lot is worth." This raw case of property after it is sewered, landscaped, sidewalked, and all the rest of it will probably warrant that build-up. We cannot tell anything about it. Nobody would say a word if the next piece of property to it was sold for $50,00 0or $70,000, because there is an unearned increment involved which cannot be criticized as to its value, if it is sufficiently attractive.

Mr. FAHEY. It is very difficult to deal with those questions without knowing all the facts.

Mr. CRAWFORD. Mr. Fahey, you know the land next to it would be worth nothing if the wrong thing is built on it. All of these things which Mr. Ford says must necessarily be added to the appraisal.

Mr. FAHEY. You mean with improvements, streets and so forth.

Mr. CRAWFORD. Yes. I have not gone there, but I am through.

Mr. GORE. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes.

Mr. GORE. Mr. Fahey, do you think that it is necessary for a proper appraisal to consider the cost of the land?

Mr. FAHEY. Oh, yes; I do. But the cost is not the sole factor to be taken into consideration, but what has happened in the neighborhood or environment affecting that value.

Mr. GORE. The witness who preceded you, who is connected with quite a large concern, told us that in many cases they did not know the cost of the land. Do you think that is a sound method of appraising?

Mr. FAHEY. If I was appraising to purchase for myself or for an institution, I think I would make a pretty earnest effort to find out what the land cost. And then the cost of the structures on it is an important part in fixing value in an appraisal.

Mr. GORE. But that would not be the guiding matter in considering that?

Mr. FAHEY. Not necessarily.

Mr. GORE. I would like to pursue that further but for the time that is drawing nigh, but I do want to get your viewpoint on this next question.

The same witness said he did not know why there should be a discrimination as between an applicant who wanted to build a new home and an applicant paying exorbitant rates on his existing home. What is your thought? Do you think there ought to be discrimination?

Mr. FAHEY. No; I do not. There should be no discrimination which represents exploitation or an unfair interest rate. That is why

I say if such a loan matures or it is to be refinanced, and the institution is not ready to meet the market on it, there is no reason why it should not be considered for insurance on a loan made by another institution. But if the institution holding the loan is meeting the market and offers just as fair a rate then there is no occasion to transfer the loan elsewhere.

Mr. GORE. Pursuing your answer, you say if the loan matures, or they are not meeting the market——

Mr. FAHEY (interposing). Yes.

Mr. GORE. Then there is no reason why insurance should not be granted.

If we deny the authorization for F. H. A. insurance mortgages on existing properties, would not that defeat their efforts?

Mr. FAHEY. That is quite true.

I think there is now less likelihood of exploitation in the case of refinancing loans on existing property than there has been because of the competition which has developed. If you made provision for the insurance of loans on existing houses where new purchases are made I doubt if you would need to go any further. Competition will take care of the rest of it, in my judgment.

Mr. GORE. But in case it was in some isolated neighborhood and the insurance competition would not take care of it, do you not think it the obligation of Congress and the Government to provide some avenue through which that man can obtain a legitimate and a reasonable loan for his home?

Mr. FAHEY. As to that, Mr. Congressman, I would say that would be an extremely unlikely case, because it is difficult for F. H. A. to deal with the problem of insurance in the thinly populated areas, where there are no competing institutions. Where there is competition between the country bank and let us say the building and loan association, or the mortgage company, or the insurance company, they are all of them actively looking for loans. If properties are in remote areas where mortgage money is not plentiful it is impractical to apply insurance of loans. It is too expensive.

Mr. GORE. Mr. Chairman, I would like to pursue my questioning further but there is not time.

The CHAIRMAN. There is one more question by Mr. Martin.

Mr. MARTIN. I understood you to say in the begining that you advocated the discontinuance of insuring mortgages on existing property. Is that correct?

Mr. FAHEY. Except in the case of new purchases.

Mr. MARTIN. If you discontinue insuring mortgages on existing property, will that not have a tendency to curtail credit?

Mr. FAHEY. I do not see how it would, Congressman.

Mr. MARTIN. In other words, if you shut off this 50 billions of potential credit that is going into insured mortgages on existing property, you shut off that entirely, close that case, and then you curtail that much credit, do you not?

Mr. FAHEY. I think that abundant credit is available through the desire of the institutions to get loans and to hold the loans. They have plenty of them. There is no shortage of money so far as the institutions as a whole are concerned; I mean that they are looking

for the opportunity to employ funds, and they do not want to lose the loans they have.

Mr. MARTIN. But if you discontinued insurance loans on existing property, then you close that particular gate, do you not? What is it, about $25,000,000,000 of insurance bonds?

Mr. FAHEY. How much?

Mr. MARTIN. $25,000,000,000. There are about that. I have figures here.

Mr. FAHY. Oh, the total of outstanding mortgages in this country at the end of 1938 was about $17,600,000,000.

Mr. MARTIN. I am not talking about mortgages; I am talking about the resources and the potential credit that could go into that particular class of mortgages. You are going to shut all of that off. Therefore, you are going to curtail that much credit, are you not?

Mr. FAHEY. I do not think so, Mr. Congressman.

Mr. MARTIN. You do not?

Mr. FAHEY. No; I do not. I think there is plenty of money in the hands of these institutions, so that they are very ready to revamp the loans they have in their portfolios, keep them, and meet any kind of competition rather than lose them. They are doing it all over the country. Last year a billion three-hundred-odd millions of dollars was refinanced without any insurance whatever.

The CHAIRMAN. All right, Mr. Fahey. We thank you.

Mr. FAHEY. There is one question you asked relative to brokerage. There is no regulation against brokerage that I am aware of so far as F. H. A. insured loans are concerned.

The CHAIRMAN. The information given us is to the effect that the insured loans carry no brokerage fee.

Mr. FAHEY. As to the brokerage fee, it is seldom incorporated in the loan, in any kind of a loan.

The CHAIRMAN. I understand that.

Mr. FAHEY. It is collected from the borrower, but it has to be included in his cost of getting the loan.

The CHAIRMAN. They look into all of those matters before they insure loans?

Mr. FAHEY. What is that?

The CHAIRMAN. They look into all of those matters before they insure a loan, and we have not been informed that they insure them where that practice is being carried on.

Mr. FAHEY. You mean they do not accept as an insured loan one where a broker is collecting a fee for negotiating it?

The CHAIRMAN. We had not been so informed.

We thank you, Mr. Fahey, we have to adjourn and get to the House, as a roll call is in progress. Again we thank you.

We will meet tomorrow at 10:30.

(Whereupon, at 12:30 p. m., a recess was taken until tomorrow, Wednesday, March 15, 1939, at 10:30 a. m.)

Record of section 203, mortgages originally made, sold, and purchased (including resales), cumulative through Sept. 30, 1938

	Mortgages made [1]	Mortgages sold [2]	Percent of mortgages sold to mortgages made	Mortgages purchased [3]	
				Amount	Percent of total
Commercial banks	$780,184,000	$140,414,000	18.0	$90,095,000	28.4
Building and loan	188,206,000	24,691,000	13.1	9,726,000	3.1
Mortgage companies	188,005,000	118,562,000	63.1	4,687,000	1.5
Insurance companies	120,300,000	11,194,000	9.3	107,678,000	33.9
Savings banks	40,256,000	2,147,000	5.3	14,743,000	4.6
Federal agencies [4]		14,795,000		72,210,000	22.8
Miscellaneous	54,366,000	5,286,000	9.7	17,950,000	5.7
Total	1,371,317,000	317,089,000	23.1	317,089,000	100.0

[1] Represents gross mortgages accepted for insurance.
[2] Represents premium-paying mortgages sold, including resales, except for Federal agencies.
[3] Represents premium-paying mortgages purchased, including resales, except for Federal agencies.
[4] Federal National Mortgage Association, RFC Mortgage Co., and F. D. I. C.

Source: Insured Mortgage Portfolio for December 1938 and January 1939, published by F. H. A.
NOTE.—The figures in above table were presented in 2 separate issues of the Insured Mortgage Portfolio.

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

WEDNESDAY, MARCH 15, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Mills, Martin, Folger, Wolcott, Gifford, Luce, Crawford, Gamble, Simpson, Kean, and Sumner.

The CHAIRMAN. The committee will come to order. Mr. McDonald is here this morning, and I thought that the committee would like to have him make a concluding statement. You may proceed, Mr. McDonald.

STATEMENT OF STEWART McDONALD, ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION

Mr. MCDONALD. Mr. Chairman and gentlemen: The title of the National Housing Act, inscribed in the official printing by Congress, is—

An act to encourage improvement in housing standards and conditions, to provide a system of mutual mortgage insurance, and for other purposes.

It seems to me that the operations and accomplishments of the Federal Housing Administration have been adequately reviewed. Even those opposed admit the effectiveness of the National Housing Act in stimulating new residential construction, and in reducing costs of home ownership to the borrower, as well as in providing added safety to the lender.

The issue today narrows itself in my mind to the simple question of interest rates.

The funds held by institutions engaged in long-term mortgage lending in this country consist of life-insurance company assets of about $25,000,000,000, savings deposits in commercial banks of $11,000,000,000, and deposits in mutual savings banks of approximately $10,000,000,000, as well as funds in building and loan associations of around $6,000,000,000, or a total of about $50,000,000,000.

If our power to insure existing construction terminates on June 30, 1939, about 90 percent of these potential funds for home financing will be excluded from that portion of the market which is represented by a mortgage of over 50, 60, or 66⅔ percent of the value of existing construction; that is, in almost every State.

This is because, as you will recall, when the National Housing Act was passed, it was clearly shown that the proposed F. H. A. mortgage, which might be for as much as 80 percent of the appraised value of the property and continue for a period as long as 20 years, would be illegal for the life-insurance companies, State and national banks, trust companies, and savings banks in practically every State in the Union.

It was, therefore, necessary to spend almost the first year of the existence of the F. H. A. in having the laws changed in the 48 different States. This was done by passing enabling legislation making it legal for these institutions to make the easy-payment F. H. A. type of loan, but only provided they were insured under the terms of the National Housing Act.

Therefore, for the F. H. A. now to discontinue insuring existing construction would be the equivalent of nullifying this enabling legislation and putting us back where we were, as far as competitive mortgage lending on existing construction is concerned. With only very few exceptions (Massachusetts being the outstanding one because of its cooperative bank system), funds of life-insurance companies and savings accounts in State and national banks, and in savings banks and trust companies, could no longer legally be invested in loans in excess of 50, 60, or 66⅔ percent on existing construction because they would be denied the F. H. A. insurance.

In effect, therefore, it would give a monopoly to the building and loan societies in financing existing construction, because the people have been taught to avoid the old-style short-term first, second, and third mortgages which were so largely responsible for the crash, and for the necessity of organizing the H. O. L. C., and resulted in the Government's being compelled to guarantee advances of $3,000,000,000.

I am sure the net result would be to produce a deflationary effect upon all existing owner-occupied homes, of which there are about 10,000,000 at the present time; for the very good reason that these homes would be deprived of approximately 90 percent of the available potential mortgage funds, as far as the high percentage F. H. A. type of mortgage is concerned.

With approximately 10,000,000 existing owner-occupied homes and about 270,000 new houses built last year, from the home owner's point of view, the importance of keeping the F. H. A. in existing construction was in the ratio last year of 10,000,000 to 270,000.

It is therefore apparent that to those home owners whose mortgages are becoming due, to those who for many very good reasons have to dispose of their homes and wish to find buyers, to those who wish to become home owners, but either cannot afford the purchase of a new house or can get one more suitable to their needs in a used house, and perhaps a better value—to all these people the rates, terms, and conditions now available under the easy-payment F. H. A. plan would be denied in practically all areas of this country.

Though mortgage money will undoubtedly continue to be cheap in the North Atlantic Seaboard and the New England areas, yet with these large investing institutions out of the market for F. H. A. mortgages on existing construction, the repercussion on interest rates, particularly in the West and South, is bound to be bad.

The statement has been made here that for the F. H. A. to continue financing existing construction adds nothing in the way of reemployment. That the reverse of this is decidedly true is shown by the result of a careful survey which we have recently made indicating that 62 percent of all existing homes insured by the F. H. A., have, in order to meet the F. H. A. requirements, been modernized and repaired in substantial amounts. This rejuvenation of existing homes maintains neighborhood values and the lack of it would be a contribution to shrinkage of property values and a drift toward slums, all entirely aside from pay-roll benefits.

I have given very careful consideration to the arguments that have been presented to you with respect to the effect of this legislation on "local thrift and home-financing institutions," by which term I think is meant the local building and loan associations. But I fail to see how the operations of the Federal Housing Administration in insuring mortgages on existing construction can have any injurious effects upon the operations of these associations. In fact, many of them insure a substantial part of their loans in the F. H. A.

In any case, I do not see how a fair-minded person can complain of an honest and legitimate competition, which in the end benefits the home owner.

The share holders in a great many of these building and loan associations are insured by a governmental agency. They furthermore have access to the large reservoirs of funds available through the Home Loan Bank System—another agency created by Congress and almost entirely financed by the Government. In fact, exclusive of the H. O. L. C. original loans, almost a half billion dollars of Government funds have been invested in the Home Loan Bank System, or in building and loan associations operating as a part thereof, and, for the benefit of privately owned associations. These, together, have almost exclusive use of these facilities for discount purposes.

So, I am unable to see why the building and loan societies cannot compete for savings in the open market on terms similar to those offered to savers in mutual savings banks, who number 15,000,000, in savings departments of State and National banks, who number 35,000,000, and in life insurance companies, who number 65,000,000.

It seems to me that these are also entitled to be classified as thrift institutions, and in the aggregate they have available for long-term investment some $45,000,000,000. This is the largest reservoir of loanable savings funds in the country.

I think all of you know that in the case of savings deposits in banks, a local investment is invariably preferred. And in the case of savings through life-insurance companies a substantial part of these savings are reinvested in the State where the premiums originate, and such reinvestment is required by law in at least one State. In fact, it is the reinvestment of these funds in F. H. A. mortgages which has produced such a salutary effect in lowering interest rates in many States, where funds are not abundant and rates correspondingly high.

Under the influence of the F. H. A., short-term lending and costly second-mortgage financing are rapidly disappearing. Standardized appraisals, consideration for the first time of the influence of neighborhood trends, and weighing the reasonable ability of the borrower

to pay, are now the accepted method of procedure. In short, through the F. H. A., definite strides are being made toward placing home financing on a basis where never again can the insecurity and instability of home ownership be so precarious as to subject the Nation to an avalanche of foreclosures, and thereby require another H. O. L. C.

Consider the case of the mechanic, for instance, with an income of between 12 and 15 hundred dollars per annum. If he were a steady man, he would be passed on the F. H. A. easy-payment plan for an approximate monthly payment of $20. The maximum new house he could buy for this would be around $3,800. Yet he has a large family and a new house of this size would not meet his requirements. So, if he is to be a home owner at all, he must turn to existing construction, where he can get a bigger house for less money; and, with such essential modernization and repairs as the F. H. A. would require, such a house would actually satisfy his needs better than a new home would.

It is therefore my considered opinion that no permanent good can be done by encouraging new construction at the expense of existing construction; and certainly it would seem to me unfortunate for Congress to discriminate now against the type of citizen who had the foresight, initiative, and courage to buy or construct a home before the F. H. A. came into existence.

Mr. WILLIAMS. Have you finished your general statement?

Mr. MCDONALD. I have finished that general summary of our case in respect to section 203.

Mr. WILLIAMS. I was interested in what you said there as I understood you, about the law requiring the insurance companies to invest in the State where they receive the premium.

Mr. MCDONALD. Premiums.

Mr. WILLIAMS. Is that the law?

Mr. MCDONALD. It is in some States. I think I can get some authority on that.

Mr. WILLIAMS. I would like to know something about how that works. It is something new to me. They are required to invest their funds in real-estate mortgages in the States in which the premiums are paid?

Mr. MCDONALD. I do not know that investment must necessarily be in mortgages.

I remember very well in St. Louis, the Equitable Life Insurance Co., and there were several other life-insurance companies there, built properties there to comply with the law. Whether they are required in many States to do that I do not know, but in Texas that law is paricularly rigid.

Mr. WILLIAMS. There has been a good deal said here in the course of these hearings about brokerage commissions.

Mr. MCDONALD. I beg pardon?

Mr. WILLIAMS. There has been a good deal said here about brokerage commissions.

Mr. MCDONALD. Brokerage commissions?

Mr. WILLIAMS. Or fees in connection with these F. H. A. insured loans. Now, what are the facts on that?

Mr. MCDONALD. Mr. Cahill, have you a report on that?

STATEMENT OF RAYMOND T. CAHILL, ASSISTANT ADMINISTRATOR (MUTUAL MORTGAGE INSURANCE), FEDERAL HOUSING ADMINISTRATION

Mr. CAHILL. Yes, sir. Under our regulations we permit the lending institution to charge a maximum rate of 1 percent of the amount of the loan that we are to insure on existing home mortgages to cover expenses for putting that loan on its books. Also, that maximum rate covers a minimum rate of $20.

On new construction where it is necessary for the bank to analyze the plans in making the loans and to make advances on this loan during the period of construction we allow a maximum of 2½ percent of the loan, with a minimum amount of $50. The 2½ percent is a maximum amount.

However, like all competitive markets, the money market follows the amount of money available, and in most instances today those fees are not charged where money is available at low rates. The competition for loans has practically eliminated the necessity for borrowers paying those permitted charges.

Mr. WILLIAMS. I have a very definite conviction myself that there ought not to be any charges there. Would there be any objection in this law to placing a provision in it that that should not be done?

Mr. MCDONALD. I do not know, Mr. Williams, what the effect of that would be. I have a good deal of the same feeling you have. I have been turning the thing over in my mind for some time.

Mr. WILLIAMS. It seems to me that brokerage fees are out of line with this law. That is an additional charge to the home owner.

Mr. MCDONALD. Of course, in the case of a building and loan association making a loan, I can see the justification for that, as it goes back a little ways. When we were established the United States Building and Loan League indicated, I believe, that there were usually certain initial fees paid. Could it be 4 percent? What was it?

Mr. CAHILL. Three and one-half to four percent.

Mr. MCDONALD. This permitted charge was in keeping with their plans, because the institution has to send people out on a job to check the customer's bills, and so forth, and there is something justifiable in meeting that expense. I can see that.

Mr. WILLIAMS. We are not only encouraging the brokers, but we are subsidizing them to go out and get those loans.

Mr. MCDONALD. The lender has to check up on the construction and advance the money to the contractor on the bills presented. That is additional service. I do not know what the status would be if this charge for services were not permitted, and I do not know whether or not the institution would perfer to make construction loans if this were not the case.

Mr. WILLIAMS. In my judgment I would not just fool with him. I think we are subsidizing him too much.

There has also been some evidence about the sale of these mortgages at a premium. Would there be any justification for placing in this law an objection in case they were discounted or sold at a premium?

Mr. MCDONALD. What would be the advantage of that?

Mr. WILLIAMS. It would simply stop what these building and loan associations and savings banks claim is an inducement to speculate in these mortgages at the expense of the Government.

Mr. MCDONALD. I would not put it that way.

You mean to say if a mortgage at 5 percent is more attractive to a New England insurance company than a similar mortgage would be to man in South Carolina, that that is a disadvantage or an expense to the Government?

Mr. WILLIAMS. Of course, the evidence is here that they would not purchase those loans unless they were insured.

Mr. MCDONALD. Certainly.

Mr. WILLIAMS. We are permitting an institution to make these loans, insure them, guarantee their payment, and then permit them to sell them at a premium of 3 percent, as the evidence shows here. It strikes me that that is rather unsavory practice at the expense of the Government.

I do not think the Government should insure these loans for the purpose of kiting them around among others. They would not think about doing that if they were not insured.

Mr. MCDONALD. The loans would not be as negotiable, of course. Of course, that is one of the objectives of the F. H. A.

Mr. WILLIAMS. The very purpose of setting up this is to finance a market for the real-estate mortgages, and not finance a market where they could be sold by reason of that insurance and a profit could be made.

Mr. MCDONALD. Of course, the insurance makes them attractive to the investor.

Mr. WILLIAMS. What I am objecting to is they are selling them at the expense of the Government.

Mr. MARTIN. They are not selling them at the expense of the Government.

Mr. WILLIAMS. They are selling them, and it may be at the expense of the Government at that. And if there is a loss on them it will be at the expense of the Government. I am in favor of an amendment. I do not know how the rest of the committee feels.

Mr. SPENCE. I have some letters on this subject. Can you control this as to the mortgagor?

Mr. MCDONALD. For instance, you mean the man who walks down the street——

Mr. SPENCE. For instance, a man refinances his mortgage and the mortgagor charges him a brokerage fee. I mean a brokerage man in the business. It is customary to do that.

Mr. MCDONALD. I do not believe it is customary. But I do not believe you should stop a man in this day and age from going to a building and loan association, or from letting some man charge him for showing him where the bank is.

Mr. SPENCE. Do they not do that?

Mr. MCDONALD. Mr. Cahill can answer that.

Mr. CAHILL. There is some of it. But at the same time the broker is noncontrollable to the extent that we cannot police down that far.

We believe the lowering of the interest rates and the requesting of borrowers to come in, often with page or a quarter of a page ads (such as I received from some building-and-loan associations this morning), saying "no brokerage fees," "no additional charges," and so forth, is gradually eliminating brokers' charges; and in a short time, if these low interest rates prevail, the matter of competition by lending institutions themselves will bring the individual borrower direct to the institution and eliminate brokers' charges.

Mr. SPENCE. Have not these men charged from 2 to 5 percent?

Mr. CAHILL. Yes; prior to the F. H. A. it was a common practice in the mortgage-brokerage business, particularly in large centers.

Mr. SPENCE. Do they not do it yet?

Mr. CAHILL. Yes; it is being attempted; but, speaking as a former member of that business, the mortgage brokerage business is a dying business today, and will not continue to any extent as this low cost of mortgage money is stressed through advertising media and through the banks themselves. The lending institutions are going to get that business direct and drive the middleman ont of business.

Mr. SPENCE. Would there be any objection to putting it in the law to prevent him from charging that?

Mr. CAHILL. It is not in the law and apparently the brokers as such will be out of business pretty soon anyway.

Mr. SPENCE. Have you any statistics as to what is charged?

Mr. CAHILL. We know exactly what is charged by lending institutions, and we do control the charges, that is, what the lending institution charges for the initial service charge, what it charges for its closing fees, and so forth. That is stipulated in our regulations, noted on the mortgage instruments, and the records come to our offices. Our closing clerks check those fees. If they are out of order, we know it very quickly.

Mr. SPENCE. You start checking them after a broker receives the brokerage. This is an entirely independent transaction.

Mr. CAHILL. Yes; an independent transaction over which we have no control.

Mr. SPENCE. Have you any information as to what has been the extent of the charges of the broker to the prospective mortgagor?

Mr. CAHILL. We have no definite information.

We find this, as I said before, in certain localities where there is a large volume of business and the volume of potential business warrants it, he attempts to stay in the picture; but, as I say, the brokerage fee is being so cut down, and it is only in individual cases where the borrowers take advantage of the broker's services instead of going direct to the institution. I am sure the effect of such a resolution would be destroyed by the fact of the availability of funds which are in existence.

Mr. SPENCE. Did you ever find a case where there was collusion between the lender and the broker?

Mr. CAHILL. That formerly existed to some extent, but if a lending institution commissions a broker and we know it, we insist that nothing be paid but our maximum fee.

Mr. SPENCE. That has been a constant experience?

Mr. CAHILL. We feel it is dying at the present time.

Mr. SPENCE. You have had the effect of bringing about a reformation, if you have done it, but that has been the custom in the past, that they obtained an exorbitant fee.

Mr. CAHILL. In fact, in prior days brokerage institutions were a sort of a feeder in the mortgage business, but they have now practically gone out of business.

Mr. LUCE. Did not we have testimony as to the premiums which were paid to get this lending business?

Mr. WILLIAMS. Not the premiums, I would say, but the commission.

Mr. SPENCE. You think that was a bad practice?

Mr. CAHILL. Yes; adding it on to the borrower's expense is unnecessary.

Mr. WILLIAMS. May I give you a concrete instance? The old form was you picked up the paper and saw an ad, "I am in the brokerage business; I go to this man and say, 'I have got a fellow who wants to borrow $5,000.' " And you are told, "I can let him have it, but it will cost him 7 percent interest and 3 percent brokerage." That is an old business. It is the oldest in the real-estate business.

When the F. H. A. came in and the other banks and institutions started after 5-percent money, all you had to do was to go to the bank and get the loan. I know some builders have a sort of an arrangement whereby they solicit the real-estate men that they will sell his property and charge him 5 percent, and undoubtedly that is charged in as part of the cost in the price of the house. So far as the getting of a loan direct, I know of no bank or building and loan association that will pay a nickel for a loan. If I want a loan and go to a bank and say, "Get me an F. H. A. loan," that would be the end of it, or should I turn that over to one of these brokerage men and let him charge me $50.

Mr. SPENCE. You could control that by law.

Mr. CAHILL. Not by law. It was not the custom prior to 1932 for lending institutions to advertise to the extent that they do today. Therefore, the advertising of funds was usually due to the broker. Today your papers are plastered with "ads" by lending institutions, and a good many say, "Come to me and I will get the loan." The average borrower, unless he does not want to take the time, is generally going direct to the lending institution where there is no brokerage charge.

Mr. SPENCE. Yes; but an active broker will be very persistent, if he is in that business.

Mr. CAHILL. That is true.

Mr. FORD. You take the average real-estate man, and what is his heading on his "ad" or his stationery? It is "Real Estate, Property Bought and Sold and Exchanged, and Loans Negotiated." That is about usually what the real-estate man advertises.

You go into a broker's office and say, "I want to build a house, a house that costs $5,000. Can you get me the money?" He says, "Yes." He goes to an insurance company, a bank, or a mortgage company which will make him a building loan. For this service a 3-percent charge is made. Then when the building is completed a permanent 5-year 5-percent loan is made on the property. For that service an additional charge may be made. All brokers have money to loan. In Pittsburgh some years ago there was a fellow who used to advertise barrels of cheap money to loan. You paid him 2 percent for the loan and 5-percent interest. Since the F. H. A. has come in, this advertising does not have much effect, and the average person who wants a loan can go to his bank or building and loan association and get the loan. Many of them go to F. H. A. Many of them go

to a bank. That is the modern way, and it is a vast improvement over the old method.

Mr. LUCE. I want to bring up an illustration hurriedly which has been brought to my attention. I want to buy a house direct from a real-estate man. We have to sell a mortgage, and first an organization of men formed into an association, have to agree on charges. The real-estate man wanted a commission for selling the new house. He wanted a fee for finding an F. H. A. mortgage on it, and he wanted a fee for taking care of the house to be sold, and for putting a mortgage on it, and he had four charges altogether. He would have to sell it or he would be fired from the real-estate exchange. I do not see anything to prevent it. What is there wrong about that?

Mr. CAHILL. In our regulations, Congressman, we have said distinctly that nothing denies the right of any man to use the services of a broker if he sees fit to do so.

Mr. LUCE. He would, of course, if the broker approaches him in the first place.

Mr. CAHILL. It is a service which may or may not be desired.

Mr. LUCE. What I am getting at is that of course you would not attempt to tell us you can get a broker without cost, because he renders a real service.

Mr. CAHILL. Yes, sir.

Mr. LUCE. I am wondering if this amount asserted the other day, if a broker could get a premium on all of that.

Mr. FORD. They said the amount was 103 or 100, and if it was a $10,000 loan there would be $300 premium.

Mr. LUCE. Somebody got it.

Mr. FORD. Mr. McDonald, there has been a great deal of discussion here on the St. Louis loan made under section 207. Let us get that straight. What is there to that?

Mr. MCDONALD. Would you like to go into that, because I would like to finish this section 203 first?

The CHAIRMAN. Let us get that first.

Mr. LUCE. Some 2 or 3 years ago it became evident that the F. H. A. was to be a temporary matter to meet an emergency, which was the need of more houses and the need of employment. That is all we understood about it and all we were told about it. We were never told and it was never suggested that we were engaged in anything but a temporary activity to meet an emergency; and 2 years ago, or I think it was a year or two ago, the President told the country so, that we were to get out of this emergency of the mortgage business; and the country has believed that the President believed what he said, that he was using good judgment in the matter; and now, to the astonishment of some of us, we find that this organization is seeking to be a permanent branch of the public administration, and we are asked to go into the real-estate business for all time, so far as we know, because certain evils are supposed to exist in the real-estate field, and no other reason is suggested; and will you please explain to us why the administration has reversed itself in its stand on this matter and why you think a permanent organization is necessary? Why should we expand to that degree our activities? Of course, we are going into it in all directions. We are financing savings banks and refrigeration and 100 other things. We are going into

competition with private enterprise in every direction. Why should this be added?

Mr. McDONALD. I was not here when the act was written. The entire philosophy, as I conceive it, is contained in the National Housing Act as originally written and as amended, together with the original hearings before the committee passed the act. I notice from the original act there were $2,000,000,000 allocated for insurance of mortgages under title II, and that at least half of the amount was reserved for new construction and the other half for existing construction.

Also, as I read through the act, all the way through, and it is a very detailed and carefully worded document that takes many pages of fine printing, I find detailed instructions as to the duties and responsibilities of the Administrator—what he must do through a period of 20 years in setting up group accounts and in allocating expenses to these accounts in making studies of building conditions and of neighborhood trends, and other instances of that kind of detailed provisions from which I gather that the Housing Act was intended as more or less of a permanent affair.

I am very well aware of what the President said in the fall of 1937 in his message as to what he believed the emergency was before Congress, when the country appeared to be heading very rapidly for a recession; and what is far more important, he brought together businessmen from here and there; and they all said what the country needed. The one thing that could stop the recession, they indicated, would be a revival of building.

They all knew and hoped a slum-clearance program would come along later. The difficulty of getting that program under way prevented it from promising immediate help, and the F. H. A. being more mobile and already in full operation, was conceived as the framework in which a bill could be put. Therefore, a bill was presented in the fall of 1937 to Congress in connection with which the President made the statement that he believed F. H. A. should eventually get out of existing construction mortgage insurance. As you remember, Mr. Eccles was chairman of a committee making recommendations to the President at that time. Other members on that committee were, I believe, Mr. Wood, head of Sears & Roebuck, Mr. Sloan, and Mr. Jesse Jones. Mr. Eccles and Mr. Jones appeared here and spoke to the effect that the bill before the committee would have a salutary effect in stimulating residential construction.

The entire emphasis was put upon getting men employed, and not much emphasis was put upon the provision that F. H. A. should discontinue the insurance on existing construction this year. I myself made no objection to the latter at that time.

It is my considered opinion, as I just read to you from my statement, that discontinuance would have an effect upon 10,000,000 existing homes today. We have had time to study the recommendations made by the committee and enacted by Congress last year. I can say most of them are good; not all of them however.

One section of the act I think was not good. That is section 210. We have tried every way we could to properly administer that section of the act. I find I cannot do so with any degree of safety to the United States Treasury. For myself, I should like to see it repealed. That is the portion of the act which allows the Administrator to insure apartment houses from $20,000 up to $200,000. This section does not contain the safety provisions found in section 207, under which dividends are limited. This provision, we believe, makes it very unlikely that the Government will lose money on that type of project.

I can say, Mr. Luce, if, in my eagerness last year to see the passage of the emergency bill to stimulate construction, I acquiesced in the F. H. A.'s dropping out of existing construction insurance this year, I wish now to change my mind.

Mr. LUCE. Your silence is hardly consistent with that statement which you made to the committee on November 30, 1937, nearly 2 years ago, to the effect that "We desire to eliminate that."

Mr. McDONALD. That statement belongs with the preceding paragraph. Read on from there.

Mr. LUCE (reading):

> After July 1, 1939, the F. H. A. will drop out of existing construction, except houses which it has previously constructed and of which it may be in possession or have to accept after foreclosure.

Mr. McDONALD. That is what the act said, and that is exactly why I went along with it. But I am of the opinion now it is a mistake, just as I am of the opinion that section 210 is a mistake.

Mr. LUCE. We have observed that many matters which are started for expediency's sake and for meeting a crisis are now developing into permanent activities of the Government. Do you wish to permit yourself the idea that the Government shall go into the real-estate business permanently?

Mr. McDONALD. It seems to me after reading the minutes and the hearings when this act was started the country was tremendously shocked and aggravated to find they were compelled to supply $3,000,000,000 to institutions to aid home owners who were caught in a mortgage-foreclosure debacle.

It seems to me when reading the hearings on the National Housing Act, developed out of a desire to prevent any such catastrophe from again overtaking the country, it was a desire to put mortgages on a more sane basis.

Mr. LUCE. No, sir. Our only object was to give work in the building of new houses. That is all we had in mind.

May I further ask you this, in order that we may understand the philosophy behind all of this: The statements this morning have been of disclosures in the real-estate business. That was also disclosed in the security field, disclosed in the electric-power field, with the result that in all of these discussions we have enlarged the scope of Government tremendously these last 7 or 8 years. We had hoped that this was to be a temporary thing, because the President said so, and you said so in one place.

We now find, because of defects in the real-estate business, it is urged that we stay in the field as a stimulant and that we are to maintain a huge corps of employees in Washington to keep the real-estate dealers straight.

Do you think that is necessary?

Mr. McDONALD. Mr. Luce, I do not want to rewrite the act. All I am doing is to administer it, as enacted by Congress, to the best of my ability.

Mr. LUCE. You are administering it fine. We approve of the administration of it. But you want to stay in it.

Mr. MCDONALD. I do not know. Personally, I would like to get out of it, if you would let me, please.

Mr. LUCE. We want to know whether you think we ought to legislate this as a permanent activity of the Government.

Mr. MCDONALD. I lean to your way of thinking to some extent, so much so that I appeared before this committee and asked that they drop title I, because I do not think the Government has any business backing a lot of institutions in making modernization repair loans when if they had sufficient initiative they would make them without Government insurance. They have had 4 or 5 years' experience in making such loans, they know the loss ratios to be expected from this type of loan, and I have recommended that it be dropped, but I do not know what the action of the committee will be on it. So I am not diametrically opposed to your way of thinking.

Mr. LUCE. That is it.

Mr. FORD. Might the observation be pertinent to say that the Government maintains rather an extensive police force to protect the citizen from illegal actions in almost every field of activity, and if in the maintaining of an F. H. A. for the purpose of protecting interest rates and giving the home owner a chance to own his home and pay a decent interest rate does not come within the police powers, I do not know what does.

Mr. LUCE. May I interject that it may be a Government function, but it is hardly a function conceived by Thomas Jefferson?

Mr. FORD. Thomas Jefferson was an able gentleman.

Mr. CRAWFORD. Mr. McDonald, can you tell the committee how many houses were built in 1937 here in the District and how many of them you insured and financed? Have you any figures on that?

Mr. MCDONALD. Do you mean in the District or within its environs?

Mr. CRAWFORD. When I say District of Columbia I mean in Greater Washington.

Mr. MCDONALD. Greater Washington would show a different picture than insurance of homes within the District of Columbia proper.

Mr. CRAWFORD. If we might have those figures for 1937 and 1938 it would be well.

Mr. MCDONALD. We will be glad to supply you with them.

(The material referred to will be found in the proceedings for March 16, 1939.)

Mr. CRAWFORD. I bring this up because there appeared in the Washington Herald of December 26, 1937, an editorial which said:

> Out of 1,464 houses built, sold, and financed in Washington this year, 1937, only 74 have been built, sold, and financed under F. H. A. operations.

I think that is rather significant if that is within the realm of reason at all, and I would like to have the figures for 1937 and 1938.

Mr. MCDONALD. We will be glad to give you the figures. Most of the activities in the small homes have been built outside the District of Columbia proper, in environs adjacent thereto, because the land values are very high in the District, and you cannot build a small home at as reasonable a cost as in areas adjacent to the city limits.

Mr. CRAWFORD. Now, to clear my mind, what was your over-all interest cost, we will call it, before we amended the act subsequent to the President's message in 1937?

Mr. MCDONALD. Let me see. It was 5 percent plus a service charge. It was 6.24 with the insurance.

Mr. CRAWFORD. What is it now?

Mr. MCDONALD. It is 5½ except in the case of small houses, and then 5¼.

Mr. CRAWFORD. Five and one-half and five and one-quarter. And that reduction came as a result of amendments we made to the act?

Mr. MCDONALD. Yes. You made that possible.

Mr. CRAWFORD. Does the lender under the F. H. A. insured plan have to assume any risk at all?

Mr. MCDONALD. I beg your pardon?

Mr. CRAWFORD. Does the lender under the F. H. A. insured plan have to assume any risk at all?

Mr. MCDONALD. Yes; he does. Mr. Cahill, will you discuss that.

Mr. CAHILL. The lender assumes the possible loss of all foreclosure costs. In other words, the foreclosure costs and any expenses which are covered by the certificate of claim and not included in the debenture.

The certificate of claim is payable only if the Administrator sells the property taken over under the insurance contract at a price sufficient to cover the debentures in full and any excess of F. H. A. expenses over income in handling the property. Any amount remaining after these charges have been met is applied against the certificate of claim. In the sale of any property acquired by the Administration any excess after a certificate of claim has been paid is returned to the original owner of the property who lost his house in the foreclosure action.

Mr. CRAWFORD. When we last amended the act, did we put any kind of cushion in there to help the owner on the foreclosurre cost?

Mr. CAHILL. Only under the 90-percent loan provisions, Congressman, where foreclosure occurred prior to amortization of the loan to 80 percent. There was 2 percent of the loan, or a maximum of $75, to be included in the debenture if the loan had not been amortized to 80 percent at the time of foreclosure.

Mr. CRAWFORD. Outside of the foreclosure costs, coupled with these provisions we have put in the act, do I understand you to say that the lender assumes no other risk whatsoever?

Mr. CAHILL. I do not understand your question.

Mr. CRAWFORD. I say, outside of the foreclosure costs and these other provisions for that specific purpose, does the lender have to assume any other risk under the guarantee plan?

Mr. MCDONALD. Mr. Ferguson, can you answer that?

STATEMENT OF A. H. FERGUSON, GENERAL COUNSEL, FEDERAL HOUSING ADMINISTRATION

Mr. FERGUSON. Mr. Crawford, the lender has to convey his property without any expense to us. He has to stand all expenses of title search in connection with the conveyance of the property to us because he has to convey us clear title without expense to us. He has to pay all recording fees and other expenses of that sort, and he also

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assumes a differential in interest on the debentures compared with what he got on his mortgage.

Mr. GIFFORD. The mortgagor pays for the searching of the title?

Mr. FERGUSON. Before foreclosure he was getting 5 percent on his mortgage. After the foreclosure he gets 2¾ percent on his debentures which we give him. In addition to those costs he may lose interest between the time of default and the institution of foreclosure proceedings.

Mr. CRAWFORD. I think I am getting straight on this thing, and I am not going to allow you to mislead me, and I do not call a decrease an income by reason of a drop in interest rates.

A risk, as I use the word here, referring to the impression as given by Mr. Gifford, and everybody is under the impression that the borrower pays all those charges; and do you mean to say the lender absorbs all of that and the lender pays it?

Mr. FERGUSON. The borrower is out of it after the property has been foreclosed.

Here is the procedure: If the "A" bank has a mortgage on my house and I pay him 5 percent interest on that mortgage when I go into default, and after I am in default for 5 months, let us assume the bank forecloses the mortgage. It has to pay the foreclosure costs, the auctioneer's fees, advertisements, and fees for the auditors and other expenses which the State law requires to be paid in connection with the foreclosure of a mortgage.

Mr. CRAWFORD. That is less than the cushion we have put in the act.

Mr. FERGUSON. The cushion covers only a 90-percent mortgage, which is foreclosed before it has been paid down to an 80-percent mortgage. And the cost we bear is up to 2 percent of the unpaid principal, or a maximum of $75.

Going back to the ordinary mortgage, the lender forecloses the property, pays the foreclosure expenses, buys the property in at the sale, and the property is conveyed to it. Then the lender conveys the property to us. We give it debentures issued against the mutual insurance fund which bear interest at the rate of 2¾ percent. In that transaction the lender has to pay the expense of the conveyance to him under the sale, the preparation of papers, the recording of papers, the attorney's fees, if any, and he has then to have the title run down from the date the mortgage was recorded to and including the deed to us. He has to pay for that. And another thing he has to pay for is the recording of all of those papers, and he stands to suffer a loss of interest for 6 months before the mortgage is foreclosed.

Mr. CRAWFORD. What happens if he buys the property in at less than the unpaid portion of the mortgage? Who benefits then?

Mr. FERGUSON. He gets the debentures for the unpaid principal of the mortgage.

Mr. CRAWFORD. If he purchases the property for less, who benefits there?

Mr. FERGUSON. If he gets a deficiency judgment he assigns that to us. He has to assign all claims against the mortgagor and everybody else.

Mr. CRAWFORD. The deficiency judgment covers the unpaid portion of the mortgage?

Mr. FERGUSON. And that is a personal obligation against the mortgagor which the mortgagee assigns to us.

Mr. CRAWFORD. Then if that is finally collected the lender does not assume that portion of the risk which you have enumerated?

Mr. FERGUSON. If finally collected out of the property, or otherwise. When we sell the property, we then figure what our handling costs have been, the amount of debentures outstanding, the amount of interest on the debentures, and charge all of these items against the sale price. If the sale is more than enough to cover these charges, then the balance up to the amount of the certificate of claim, which goes to the mortgagee, is paid on account of that certificate of claim; but payment on the certificate of claim is contingent upon the property being sold for enough to pay it in part or in full. If there is anything left after the payment of the certificate of claim, it goes back to the mortgagor whose property was foreclosed.

Mr. CRAWFORD. Other than the outside risks you have enumerated here in general the lender does not assume any other risk?

Mr. FERGUSON. I do not think so. I do not mean risk exactly; I am talking about costs.

Mr. CRAWFORD. I am speaking of risk as we think of risk in extending money.

Mr. FERGUSON. You mean cost, and that is right.

Mr. GIFFORD. If your investigator says, who is watching the construction, that it should stop, and the lender has already put up 50 percent, what happens?

Mr. FERGUSON. He takes that chance. Of course, we do not insure a mortgage until after the building is completed.

Mr. GIFFORD. So the lender takes that risk?

Mr. FERGUSON. He certainly does. He takes all the risk until after it is completed and has passed our inspection.

Mr. CRAWFORD. Mr. McDonald, you have made some very interesting remarks here with reference to the interest rates, which somewhat intrigue me.

When we go to the President's message of November 29, 1937, he deals quite specifically with these costs, and the fact that housing had been very backward in the line of construction, and so forth, and he says here:

> We can build over the next 5 years three or four million housing units, which at a moderate estimate of $4,000 per unit would mean spending from $12,000,000,000 to $15,000,000,000.

What effect do you think the high interest rate of 5¼ to 5½ percent, which is being charged to the people whose risks are insured by the Government, or paid by the people, has had in deterring the accomplishment of that hope expressed by the President? Do you think that on the basis of the money rates we are justified in charging 5¼ to 5½ percent, or do you think this housing program would be greatly speeded up and hundreds of thousands more people brought into the picture if we materially reduced these interest rates? Would you care to comment on that in connection with what you have already said about interest rates?

Mr. MCDONALD. I have thought about it a good many times. I do not know. It gets back to an old philosophy of merchandising which has two advocates. Henry Ford is the disciple of one, and other people have held to the idea that price is not everything. My own philosophy has been that I would naturally like to see the in-

terest rate as low as possible, without making it so low the business would not be attractive to the lender. After all, if the lender does not lend the money, we will not accomplish any good. I do not know what that figure of interest should be; 4¼ percent, as the Bowery Savings Bank is lending in New York, or 5¼ percent, I do not know.

Mr. CRAWFORD. Could you tell us what the British rate is?

Mr. MCDONALD. I could, indeed. The British rate is 4½ percent. But they have a plan by which most of their loans are made that is similar to our F. H. A. plan. I will put it conversely. They use a plan similar to our plan, but with weekly instead of monthly payments. The loans usually run for a period of 22 to 23 years, and our maximum terms are 20 and 25 years. Their rate is 4½ percent. But they have a clause permitting change in the rate subject to changes in the rate charged by the Bank of England. While currently they are going at the 4½-percent rate, in 4 or 5 years, if the interest rates change materially, the rate of interest on the mortgage can be changed.

Mr. CRAWFORD. In other words, if interest rates move upward?

Mr. MCDONALD. They can change it.

Mr. CRAWFORD. And it is somewhat anchored to the Bank of England and can't move downward?

Mr. MCDONALD. One large concern bills at 4 percent but writes its mortgages at 6 percent.

Mr. CRAWFORD. What do you have to say about the effective rate under these mortgages being anchored to our Federal Reserve rate?

Mr. MCDONALD. It might be worth considering.

Mr. CRAWFORD. You do think it is worth considering?

Mr. MCDONALD. Yes; but very carefully considered.

Mr. CRAWFORD. The Department of Commerce figures show that out of 95,804 business establishments in this country in the fiscal year 1935, there were 2,791,791 people employed who received wages. This does not include the salaried class of $3,000,000,000, or an annual wage of $1,116. Can you give us a rough idea of whether or not that group of people can be covered under this Federal Housing plan?

Mr. MCDONALD. I think we figure about $1,000 a year is as low an income as we can reasonably expect to reach. And the question of the location of the home must be considered. Down South, $1,000 a year income buys more adequate shelter for that region than it does in New England. Usually the house does not cost as much, as the houses do not have to be heated. Other items of living expenses are not so high. Up in New York or Massachusetts, houses cost more to build, and cost more to maintain during the winter.

The F. H. A. is endeavoring at all times to bring costs and the cost of paying for a home down so as to reach a lower-income group. This chart shows our experience in reaching the moderate-income group.

Mr. FORD. You have homes paying as low as $10 or $15 a month now, do you not?

Mr. MCDONALD. Yes. The largest percentage of F. H. A. home owners have annual incomes of less than $2,500. Many are in the $1,500 to $2,000 group.

Mr. CRAWFORD. $2,500 or less?

Mr. MCDONALD. Yes.

Mr. WILLIAMS. Have you that in percentages? What I mean to suggest is that it does not mean anything for the record the way you are putting it in there.

Mr. CRAWFORD. May I ask you this question, which goes right along the same lines? The National Resources Committee in their report of May 27, 1928, shows 23,349,944 families in this country with incomes of less than $1,250 out of a total of——

Mr. MCDONALD. Is that urban families?

Mr. CRAWFORD. That is all of our families.

Mr. MCDONALD. Yes.

Mr. CRAWFORD. Out of a total of 39,458,300 families; so then taking your chart here it would indicate that about 3 percent of your loans were being made to that particular group of 23,349,000 families.

Mr. MCDONALD. Dr. Fisher, you are familiar with those statistics which the Congressman refers to. What percentage of those are urban homes?

Dr. FISHER. I do not have those figures with me, but I would be glad to look them up.

Mr. MCDONALD. Is it not your impression that the F. H. A. on the recent statistics issued by the Department of Commerce where urban homes were concerned could take care of about half of the urban home owners?

Dr. FISHER. If we included existing construction.

Mr. MCDONALD. Does that answer your question?

Mr. CRAWFORD. That answers it, so far as breaking down this construction of houses is concerned. But we come back to the condition that those families included in this 23,349,944 families have to contribute to the Federal Government in carrying on this kind of program, although they are not eligible to but 3½ percent, according to the statistics.

Mr. MCDONALD. I am not sure I can agree on that, because if they have incomes that low I do not see what contribution they can make.

Mr. CRAWFORD. You do not overlook the fact that what each contributes does not make any difference, nor what each buys in cigarettes or in chewing gum.

Mr. MCDONALD. Of course, a great many people are farm dwellers, too.

Mr. CRAWFORD. When we get into the farm proposition, these figures only run around $950 for a family of four.

Mr. MCDONALD. Does that give effect to what they consume on the farm?

Mr. CRAWFORD. Yes, sir; that gives effect to what they consume on the farm—vegetables, meat, and everything.

Miss SUMMERS. At New York City prices?

Mr. CRAWFORD. Yes; New York City prices.

Here is another figure, which is the estimated cost of living in 31 large cities for workers, with a family of 4 persons, compiled in 1938 for the Bureau of Labor Statistics, which showed a housing expense of only $21.22, which they can afford to spend for that purpose. I believe you had a chart there on that. And this should show the percentage of your loans which was represented by that $20 per month.

Mr. McDONALD. I think we have that chart with us today. I am not sure. Do we have, Doctor?

Mr. CRAWFORD. I thought I saw it there a few moments ago.

Mr. McDONALD. Yes; 62 percent of all borrowers pay less than $30 per month to meet their mortgage payments.

Mr. CRAWFORD. How many pay less than $20?

Mr. McDONALD. Less than $20?

Mr. CRAWFORD. We will say roughly 20 percent paid $19.99 and less. Your chart here shows about 20 percent of your borrowers pay $19.99.

Mr. McDONALD. That is right.

Mr. CRAWFORD. Your chart then shows roughly 20 percent of your borrowers now pay $19.99 and less per month, which includes amortization, interest, taxes, insurance, and all.

Mr. McDONALD. Those figures do not include local taxes or hazard insurance.

Mr. CRAWFORD. They do not include them?

Mr. GAMBLE. About how much would that be for a $3,800 home?

Dr. FISHER. What would that be for a $3,800 home?

Mr. GAMBLE. Yes.

Dr. FISHER. Mortgage payments, including local taxes and hazard insurance, would average about $30 a month.

Mr. CRAWFORD. Mr. McDonald, are those British loans guaranteed?

Mr. McDONALD. No; the British system is like our banking system. It is a very large industry. It is done very largely by building and loan societies, and there are a half a dozen tremendous ones. Take the one that I saw most of, named the Halifax Building and Loan Society. They have something like 385 offices throughout Great Britain, beautiful offices, which are just as nice as any banking institution in any town, and they have assets of over 88,000,000 pounds sterling. They are the biggest, but there are five or six others not quite so large but still very large indeed. It is like their banking system which is in the hands of very large banks.

Mr. CRAWFORD. I have only one other question.

Going back to the President's message, which indicates some $12,000,000,000 to $16,000,000,000 for sums, insofar as you are able to answer, what about the accomplishment of our Federal Housing instruments up to the present time in attempting that expenditure per annum? What do you think the prospects are for the balance of this year?

Mr. McDONALD. Have you a chart on that, Dr. Fisher?

Mr. CRAWFORD. And if we are making slow progress what do you think is the principal cause for us not more nearly approaching his forecast?

Mr. McDONALD. The figures, I believe, covered an estimate for 4 years, or 3 to 4 billion a year.

Mr. CRAWFORD. I am taking it from his message.

Mr. McDONALD. I do not know upon what information the President made this estimate; he may not have intended it as a forecast of actual annual performance.

Mr. CRAWFORD. He may not.

Mr. McDONALD. In the first place, I do not believe there is any tremendous shortage in homes in America as is frequently estimated—what does the message say?

Mr. CRAWFORD. May I read the direct quotation, as follows:

> An average of 600,000 to 800,000 dwelling units ought to be built annually over the next 5 years.

Mr. McDONALD. That does not indicate as large a shortage as some have estimated.

Mr. CRAWFORD (reading):

> We can build over the next 5 years 3 or 4 million housing units, which at the moderate estimate of $4,000 per unit would mean spending from $12,000,000,000 to $16,000,000,000.

Mr. SPENCE. Over 4 years.

Mr. McDONALD. I think I can help you a little. Look at this chart. This chart shows there were about 900,000 dwelling units built in 1925. The decline started in 1927 and dwindled down to practically no residential construction in 1932, 1933, and 1934.

The Federal Housing Administration started at that time and 1938, I think, would have been a very poor year had not the amendments been made which you gentlemen passed early in the year. Even with a late start there were about 345,000 units built in the United States last year.

Mr. FORD. 345,000?

Mr. McDONALD. 345,000 dwelling units. They were not all individual homes. The majority were one- or two-family residences, but, of course, many were larger structures for four or more families, apartment buildings and garden apartments under F. H. A. insurance.

We feel this year that unless there should be a decided change in the trend there should be something like 450,000 residential units built, or possibly even 500,000, which would bring us up very close to the 1929 level. I do not know how that can be further stimulated, Mr. Crawford. It could be checked, however, if material prices were to rise very much or rapidly. So far we have not seen any marked tendency in that direction, although some prices are firming, but a precipitous rise in building materials would certainly throw a lot of cold water upon the building program now in progress.

Mr. CRAWFORD. But that has not yet occurred.

Mr. McDONALD. No; but many are beginning to firm.

Mr. CRAWFORD. Thank you, very much.

Mr. SPENCE. Have you any data on court costs?

Mr. McDONALD. I do not know that we have. Have we, Mr. Ferguson, at all?

Mr. FERGUSON. No; we have not. The central housing committee has worked for the last 2 or 3 years on a uniform mortgage act, and we tried last year to get that act adopted, but it was not possible under the uniform-laws committee of the American Bar Association.

I was in Cleveland myself in connection with it, and Mr. Horace Russell was there, and they did not have time, the committee said, at that time to consider it. They did, however, appoint a committee at the conference, and they instructed the committee to come back at the next meeting next July with a definite proposal of a uniform mortgage-foreclosure act, and if that can be brought about there is no question in my mind but that the financing of mortgages can be very substantially reduced.

Mr. SPENCE. Has not the Home Owners' Loan Corporation established maximum charges in some regulations?

Mr. FERGUSON. They can only do it by making special deals with attorneys on a certain basis.

Mr. SPENCE. But they have done it.

Mr. FERGUSON. I think they have. And of course the uniform mortgage act, if it could be adopted in all States, would make a very substantial contribution.

And let me state that I think that is one of the important factors contributing to the low interest rates on mortgage loans in England.

Mr. SPENCE. What about your average charge?

Mr. FERGUSON. In England they do not have 48 different laws dealing with foreclosure. They have one law, and you can foreclose a mortgage in 2 weeks.

Mr. SPENCE. What have been your average costs, and how have they varied with different States?

Mr. FERGUSON. The cost may be as high as $500 to foreclose a $2,000 mortgage.

In the District of Columbia it costs from $60 to $75 to foreclose a mortgage. There is a tendency in some States to revise foreclosure laws. Foreclosure costs are high in Illinois, and particularly expensive in New York. But the Legislature of New York is now considering a law which will very substantially reduce foreclosure costs.

Mr. SPENCE. What is the cost which is exorbitant in the various States; the lawyers' fees?

Mr. FERGUSON. Attorneys' fees, court costs, advertisements, auctioneers' fees, and other items of forcelosure expense.

Mr. SPENCE. They are fixed by statute?

Mr. FERGUSON. Oh, yes.

Mr. SPENCE. Attorney's fees are not fixed by statute?

Mr. FERGUSON. Not in actual amount, but in some States the loans specify the percentage or maximum amount that can be allowed. Then some of the States require the trustees to give bond, which adds another item of expense. Some of the States provide for a docket fee of $50, which is just an attorney's fee, that there are all sorts of fees and charges in connection with foreclosure proceedings in the various States.

Mr. WILLIAMS. Mr. McDonald, you made a statement that you would be very glad to get rid of the Administration's title I, and you so recommended, and I understand you expressed the desire to also get out of title II.

Mr. MCDONALD. Section 210 of title II only.

Mr. WILLIAMS. I understand that, but I understood you also in answer to a question by Mr. Luce to say that you would be glad to get out of it altogether.

Mr. MCDONALD. Myself?

Mr. WILLIAMS. That is what I wanted to get at; that is just your own personal feeling?

Mr. MCDONALD. Yes; that is right.

Mr. WILLIAMS. What I want to know is, in your experience in the administration of this act, whether or not in your judgment, permanent insurance of mortgages under title II and under sections 203 and 207 are sound public policy and should be engaged in as a permanent institution by the Government.

Mr. MCDONALD. Mr. Williams, I think that it would be necessary to do a little reviewing to get my full views on that.

In my study of housing since I have been here I have been impressed with one thing in particular and that is the terrific neighborhood blight in all of our large cities. I have been impressed with the fact that property values became depressed when the individual buildings themselves are sometimes in very good condition.

We go up to New England and we see houses 100 and 150 years old, that are perfectly habitable. I sometimes rent a house on the eastern shore up there that is 150 years old, and it is a splendid place in which to live.

But you take cities like Chicago, where there is a large belt which contributes almost nothing to the income of the city of Chicago, and yet it has to be policed, have fire department, water works, sewer services, and other facilities which are expensive and that bring in no income. All of that is due to the fact that the cities were built without neighborhood controls of any kind or character. It is true that a great many of these cities have building codes. Very few of them have any planning facilities with teeth in them.

As a consequence a little speculator can frequently find a suburban area where he can lay out a few lots as he pleases and build a few homes. If he has plenty of money he can carry it out, and it may turn out to be a good suburb. But if he does not have the money to complete its construction including a church and a schoolhouse, sidewalks, and other things shown on his plat, then he is not able to perform.

Those are the things the Federal Housing Administration is exercising a very strong influence on, neighborhood control and building control; and until such a time as the States or the cities themselves seem to be able to stop this distinct blighting of neighborhoods, with people moving from one district to another, which they should not do if the present neighborhood is all right, I think it is necessary for some major influence to be in there. And I do not know of any other such influence at the present time than the F. H. A.

There are some people who seem to feel that F. H. A. is not always in very close step with the building and loan system, but that is not true. We are in very close step with them, and they have our deepest sympathy. They have not been able to do anything along those lines.

The F. H. A. is the only force in America today—not only in the large cities—but also in small country places, which has been emphasizing these things uniformly throughout the Nation.

We have around the country eight major offices where we have land-planning divisions. Land developers come into these offices and show us what they propose to do. We give them our advice on developing the piece of land according to the topography, according to the way it is zoned, the type and size of the lots, the people likely to be attracted to that neighborhood, and on how to throw restrictions around the neighborhood so it will not suffer depression through neighborhood blight, and so it will not show a rapid decline in value during the years, and so that a man buying a house will find at the end of 20 or 25 years that it will command as good a value as it should, instead of being encroached upon by unsatisfactory conditions coming in, gasoline stations, hot-dog stands, and what not. And so until such time as something else takes the place of it, I think

the F. H. A. is the only force that can enforce these protections to home owners.

Mr. LUCE. Can you tie that up with the existing buildings?

Mr. MCDONALD. No; I cannot.

The only thing we can do is to see that they are modernized and brought up to date. We cannot take a man holding a $2,000 house and ask him to modernize it and put in a bathroom and other things. We can say fix up the porch, possibly tear down the porch, and maybe spend two or three hundred dollars on it to keep it from deteriorating further, and it makes a very suitable home for somebody who cannot afford to buy a house.

When you go to buy a new house that costs $3,000, $4,000, or $5,000, it is a tiny little house. A man that has a large family, and wants a new house, finds it difficult to get it at a price he can pay. But he can frequently find an old one that will serve his purposes. It may not be in a fancy neighborhood, but still it is in a respectable neighborhood; and after the old house is modernized, the down spouts are fixed up a little bit, it will make it a very serviceable place for him to live with his large family.

The CHAIRMAN. If there are no more questions, Mr. McDonald, the committee will stand adjourned to meet tomorrow morning at 10:30 a. m.

Mr. GIFFORD. Will you be here tomorrow, Mr. McDonald?

Mr. MCDONALD. Yes, sir; I will.

(Whereupon, at 12:25 p. m., the committee was adjourned until Thursday, March 16, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

THURSDAY, MARCH 16, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to notice, for further consideration of H. R. 3232, Hon. Henry B. Steagall (chairman) presiding.

Present: Messrs. Steagall, Williams, Spence, Ford, Brown, Gore, Mills, Folger, Wolcott, Gifford, Crawford, Gamble, Simpson, Kean, and Sumner.

The CHAIRMAN. The committee will come to order, please.

Come around, Mr. McDonald.

STATEMENT OF STEWART McDONALD, FEDERAL HOUSING ADMINISTRATOR—Resumed

Mr. McDonald, you had discussed title I, section 203, and we would be glad to hear you on sections 207 and 210.

Mr. MCDONALD. Mr. Chairman, and gentlemen of the committee, rental housing is provided for under sections 207 and 210 of the National Housing Act. Section 207 was in the original act, but was liberalized in many respects by the last Congress. The limited-dividend provision, however, was retained. This section of the act is designed to take care of the insurance of mortgages on large rental housing projects, ranging in amount from about $200,000 to a maximum of $5,000,000.

Section 210, however, was an entirely new provision through which it was endeavored to stimulate the construction of apartment houses from about $20,000 up to $200,000, thus filling in the gap between sections 203 and 207. The desire to motivate activity in the rental housing field sprang in part from general efforts to secure an immediate stimulation of construction, and in part from a realization that better housing for the Nation, as a whole, must include assistance designed to benefit that 55 percent of our population who are renters.

The financing of large rental structures had completely collapsed by 1930. Catering as they usually did to the very highest rental groups, the boom-time apartment houses were the first to feel the effects of decreased income in the depression years. Only a very small loss of revenue in most of them was necessary to highlight the unsound financing methods which brought them into existence. First, second, and third mortgage bond issues, with the riskiest of financing, often sold to the general public, and with inadequate provisions for

amortization, were more often the rule than the exception. Promotion proceeded upon the principle of "build them and bleed them." And in nearly every big city in the United States we witnessed a wreckage of rental housing structures which could only be cleaned up through complicated receiverships and foreclosure proceedings.

This break-down of financing facilities for multiple family rental structures, was so widespread, as to bring about practically a complete stoppage of all new apartment building. For several years there appeared no prospect of rejuvenation of this important segment of the building industry, which previously gave employment to hundreds of thousands of high-class workers.

This lack of construction and its deplorable effect, not only on employment but on housing conditions as well, became so widely recognized that the State of New York, with other States considering like action, gave life-insurance companies the right to go even further than the mere making of high percentage mortgage loans, by granting them power to invest in the outright ownership of large rental buildings. The Metropolitan Life Insurance Co., under the power thus granted, has started construction of one project, to be completely financed and owned by them, involving a total investment of approximately $50,000,000. I mention these facts and this bit of background in order to recall more clearly the conditions which motivated Congress last year in liberalizing and clarifying the field of F. H. A. activities in relation to rental housing and the emphasis that was put at that time on the necessity of immediately stimulating construction activity in this field.

I wish to report that during the past year, under the liberalized provisions of section 207, $31,000,000 of actual construction has been completed. In direct and indirect labor this involves more than 50,000,000 man-hours of labor, all brought about with the use of private capital, and upon which, I do not believe, the Government will ever ultimately lose a dollar. I should like to recall to you that when this bill was under consideration last year some opinions were expressed to the effect that the provisions were too liberal, and others that they were too rigid, to get any substantial amount of construction going. There is doubtless, however, significance in the fact that in making a definite program out of section 207 last year, Congress created for the mortgage insurance under it an entirely separate fund, indicating a recognition of the wide degree of difference between operations involving income-producing property and operations involving individual home ownership.

Realizing the full extent of the responsibility imposed upon this Administration, as well as the difficulty of carrying out the mandate of Congress to bring about a building revival under this act, the Administration developed a carefully-thought-out procedure and technique, in respect to the acceptance and insurance of these loans.

After testing out this procedure to the best of our ability and applying it to the many different projects submitted to us for examination, we then (last October) invited to Washington for a conference the representatives of the leading life-insurance companies and savings banks in America, to advise with us and carefully go over the procedure, in order that they might make any further suggestions, based upon their wide experience in large loans of this character. This conference stayed in active sesison in Washington for 2 days and was attended by the leading mortgage-lending officials of the principal lending institutions of the United States, consisting of life-insurance companies and savings banks.

This conference went very carefully into all the details of the methods followed by the F. H. A. and could offer no material improvement or suggest any change which would improve or add additional safeguards to those already in practice by the F. H. A. On the contrary, the procedure was unanimously approved by all.

I should like to point out to you that the system of financing of large-scale rental projects under section 207, which you provided for, is based upon an entirely different theory than the old pattern of first-, second-, and third-mortgage bond issues, which so utterly collapsed a decade ago. The single mortgage financing which is employed, while of a high percentage of value, rests primarily on the earning capacity of the project. Furthermore, revenue to the sponsors is drastically restricted, until such time as the mortgage has been paid off. Profits to sponsors must come from sound operation over a long period and not, as in the old days, from a "milking process."

To put it briefly, the difference between the financing of rental projects today, through the F. H. A., and the old method of financing which brought so much trouble, lies in the fact that under the F. H. A. system the mortgage must be paid off before the profits are taken, while under the old bond issue system the profits were always taken before any payment was made on the mortgage. This definitely kills the old practice of "build them and bleed them while they are new."

To sum up briefly, therefore, it may be pointed out that our program under section 207 of the National Housing Act was created in order—

First, to stimulate construction activity and secure the benefits of reemployment in a field which had been sadly lagging for a considerable period.

Second, to improve the living conditions of that large percentage of our population who, by economic conditions or otherwise, are in the class of renters rather than home owners.

Third, to develop a system of mortgage financing for rental housing structures, designed to encourage the garden type of apartment for middle-income groups, which has definitely proven stable both here and abroad.

Fourth, to place the financing of large-scale rental properties on a sound basis, calculated to prevent a recurrence of the mortgage-bond-financing collapse of the last decade, with its accompanying wreckage of real-estate values and tragic happenings to small investors.

I can say to you frankly at this time, after our experience with the rental-housing program, that no one recognizes more than we do the many complexities and difficulties inherent in operations in this field. This may best be judged by the fact that we have actually examined carefully, and I mean by that down to the blueprint stage, something like $750,000,000 of rental-housing projects submitted. Yet, thus far, as of December 31, we have only been able to pass less than $75,000,000 as suitable for mortgage insurance. In addition, at least another half-billion dollars of projects have been discussed with sponsors and rejected as impractical or unsound before actually reaching the blueprint stage.

I must say, though, of those accepted and built, we are not apprehensive of any of them failing to pay out, and believe the provisions and safeguards are sufficient, so that the Government will not be obliged to take an ultimate loss, even though some projects should become involved in foreclosures. I might add no foreclosure seems imminent at this time.

The projects completed seem to answer a definite need in rental housing, and present to the renting public of the middle-income group an entirely new type of housing called garden apartments, because the emphasis is placed upon more light and air in the apartments, and particularly more playground room for the children, with greater freedom from the dangers of automobile traffic. This is because they occupy a great deal more land area, the lot coverage generally being less than 25 percent, and with an average density per acre of 20 families, against the customary city lot coverage of 60 to 80 percent with the density running well over 100 families an acre.

A further interesting fact is that the cost of construction of these rental housing projects has averaged less than $1,100 per room, and in a few cases well under that figure. The best comparisons we have been able to make with other governmental agencies indicate that this is approximately 25 percent under what it has been costing them for a similar type of housing.

Of the 26 projects which have been in operation for 6 months or more, the majority are more than 90 percent occupied, and some have a considerable waiting list. In a few cities, however, definite opposition has been raised to the erection of these structures by some real-estate interests, particularly those representing apartment houses built 10 or 15 years ago and frequently bought in as bargains, after foreclosure, but still commanding substantial rentals with comparatively high yield on the investment and with none of the amenities referred to above.

On the other hand, the National Association of Real Estate Boards, in a meeting on February 15, this year, expressed the feeling that through the Rental Housing Division of section 207 the F. H. A. could be effective in dealing with low-cost housing, slum clearance, and curing of neighborhood blight, and urged its further action in these fields.

And while we think there is a definite place for the F. H. A. through section 207 in this most important work and to that end have gone carefully over many projects designed to rehabilitate blighted areas and several semi-slum-clearance propositions, yet the price at which the real estate has been held over and above the valuation the F. H. A. is willing to extend has so far prevented any real activity in this line.

This can best be illustrated by one project in New York City involving six units of about $5,000,000 each, which has been submitted to us and which undoubtedly would be a most worth while improvement to that city, yet the land is held at a price at least three times what we consider a satisfactory figure to work out on our earning estimates.

As previously mentioned, section 210 was an entirely new provision enacted by Congress last year. It was thought this provision would stimulate tremendously the construction of apartment houses from about $20,000 up to $200,000. And, the Administration was left

practically without limitations from Congress as to its operation under this section.

During the past year there have been submitted to us a very large number of projects to be insured under this section, but there have only been built or we have accepted for insurance on future construction to date something like a total of $4,300,000 worth. The reason for this is that the Administration has not been able to work out a suitable technique which it believes could properly safeguard the Government on a large scale of operations under this section of the act. The principal reason is that it lacks the safety requirements provided in the limited-dividend clause of section 207. So, therefore, we respectfully request the repeal of section 210 of the act.

I do feel, however, that you are entitled to and should be given a more detailed description of how this very complicated program is worked out, from the F. H. A. standpoint; and I suggest, therefore, that Mr. Colean, assistant administrator in charge of our Rental Housing Division, be permitted at this time to go into further details with you on this highly complex program.

Mr. Colean would also like to make a statement if it is agreeable to the committee.

The CHAIRMAN. Yes.

STATEMENT OF MILES L. COLEAN, ASSISTANT ADMINISTRATOR, FEDERAL HOUSING ADMINISTRATION

Mr. COLEAN. As Mr. McDonald has stated, the purpose of the 1938 amendments to section 207 of the National Housing Act was to provide an effective stimulus to rental-housing construction through creating means for increasing, on liberal terms, the availability of funds for financing such construction.

It was recognized that the disappearance of facilities for real-estate bond financing, together with the reluctance of institutional lenders to provide sufficient funds to meet housing needs, required some positive action if the supply of rental housing was to be brought abreast with market requirements. It was likewise recognized that the older method of financing not only involved costs which effectively prevented new construction except for the upper income groups, but also, through its generally short-term character, its necessary association with highly speculative junior financing and its lack of protection against wastage of the security, contained at all times a serious hazard to the stability of the real-estate and mortgage market. It was, moreover, apparent that any methods devised in substitution must admit the scarcity of equity capital, a condition as true in boom times as it was last year or now, and provide for as large percentage loans as could be made consistent with a reasonable business risk.

Under the amendments, these situations were frankly faced and authority was granted for insuring loans in amounts up to "80 per centum of the amount which the Administrator estimates will be the value of the property or project when the proposed improvements are completed." This is avowedly a liberal policy and its purpose of providing the desired stimulus to rental-housing construction is plain.

In order to surround so liberal a policy with sufficient safeguards to protect the Government's interest without nullifying the purpose

of the legislation, the law and subsequent regulations and polcy of the Federal Housing Administration established means of controlling and limiting the operating corporation so as to prevent the neglect or waste of the property, or the diversion of any funds other than to provide a limited return on the equity. Among these controls are the following:

The mortgage must not exceed the 80 percent described above nor exceed an amount of $1,350 per room.

The mortgage must not carry an interest rate above 4½ percent and must be fully amortized in regular payments extending over a period of usually 26 years.

No charges in connection with the financing of the project can be made except as approved by the Administrator.

No mortgage will be insured which exceeds the Administrator's estimate of the cost of the physical improvements, so that in the minimum the equity must represent the land free and clear and all the miscellaneous costs for interest, taxes, and insurance during construction, organization, financing, and legal expense, and so forth.

No mortgage will be insured which does not permit a drop in rental below the appraisal estimates of at least 20 percent before default on the mortgage occurs.

No liens secondary to the insured mortgage are permitted and no indebtedness of any sort may be incurred by the corporation except as approved by the Administrator.

Rentals must be established in accordance with a schedule approved by the Administrator as being proper, and no other charges for service to the tenants may be made without the Administrator's approval.

No dividends may be paid on the stock of the owning corporation except as approved by the Administrator and only after all operating expense, regular interest, and amortization charges have been paid, and after reserves for working capital, for repairs and replacements, and for at least one-half year's debt service have been established and maintained. Any excess earnings above the dividends and reserves above stated must be paid to the mortgagee as additional amortization of the loan.

No salaries may be paid except with the approval of the Administrator.

The corporation is required to maintain the property in a satisfactory condition.

The corporation must at all times permit the Administrator to examine its property and records.

The books of the corporation must be kept in accordance with the system of accounts prescribed by the Administrator.

The corporation must furnish the Administrator regular reports and audits covering its operations.

In addition to these regulations which prevail during the entire period in which the mortgage-insurance contract is in force, certain other regulations are enforced during the construction period, as follows:

Funds representing the cash equity are required to be deposited by the owning corporation in an account under the joint control of the Administrator.

No funds may be paid on account of the mortgage loan except with the approval of the Administrator.

Assurances of completion in the form of construction bond, or otherwise in form satisfactory to the Administrator, must be provided.

The above regulations are made effective by being included in the charter of the limited dividend owning corporation and by granting to the Administrator shares of a special class of stock which acquire full voting rights on the default of any monetary payment or on the breach of any of the above charter requirements. Through an Administration representative on the board of directors of the corporation and through the regular reports required to be furnished, the Administrator is kept informed of the operations of the corporation and maintains an effective supervision of these operations.

In the event of any such default or breach, the Administrator has the right, without legal recourse, to assume control of the corporation and to conduct its operations himself until such time as the default or breach has been remedied or until the property or mortgage has been transferred to him by the mortgagee. Moreover, in case the Administrator does come into actual possession of the property through foreclosure, he may, through elimination of the equity and through the favorable financing terms which he can command, rent the property at a figure so much under the appraisal estimates as to make an actual loss to the Government an extremely remote possibility.

It is felt that these safeguards will not only reduce the assumed additional lending hazard arising from a high percentage loan, but should in fact generally improve the quality of the mortgage security on income residential property as a whole. This opinion has been concurred in by lending institutions familiar with the procedure, and it is perhaps more effectively indicated by the increasing competition among lenders for these loans. It may be noted that the form of this competition is a healthy one from the point of view of added safety, taking, as it does, the form of reduction in interest rates and financing charges, rather than that of offerings of higher loans.

The administrative problem in connection with operations under this section of the act has been to provide, within the restrictions above outlined, sufficient flexibility to meet the manifold complexities of real-estate and building conditions, to act with the maximum promptness consistent with careful examination, and to involve, through our procedure, as little delay and additional cost to builders as possible. While endeavoring to do everything essential to determine the safety of a loan, we have, in the interests of encouraging construction and keeping down administrative expense, eliminated all procedures except those necessary to protect the Government's position as insurer.

Three features of the examining procedure, designed not only to protect the Government but to improve generally the quality of rental properties as good housing and good mortgage security, should be noted. These features are: Housing-market analysis, architectural consultation, and the F. H. A. appraisal procedure.

Since the basis of the success of any income property lies in the accuracy of the income estimates, great stress has been placed upon reaching valid determinations of this factor; and the Administra-

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tion is constantly endeavoring to improve its facilities for obtaining thoroughgoing market information. In each zone office research officials have been placed whose sole duty it is to study the economic backgrounds of the cities in their regions, to study population and income trends, to check vacancies, and otherwise to provide a true background for estimating obtainable rentals. Studies of this type have been extremely helpful to the Administration in establishing the basis of examination and to developers in aiding them in selecting the type of project for submission.

In the second place, emphasis is laid upon the character of project planning. It is considered desirable to have projects constitute self-contained entities of sufficient size to counteract adverse neighborhood influences which might arise during the economic life of the project. In order further to counteract obsolescence, it is required that lower population densities and greater amounts of park and recreational space be provided than are customarily established under local ordinances. Care is taken that within the family units provision is made for privacy, light, and ventilation. Through such means, it is assured that tenant families will have amenities at least comparable with those possible in detached dwellings, and that the property will continue to offer attractive living accommodations over a long period of years.

The F. H. A. architectural consultation goes beyond these considerations. It includes also careful scrutiny of specifications to provide that the proposed structure will be a sound and durable one. Few proposals are approved that do not include many added conditions intended to assure a satisfactory standard of construction.

The procedures outlined above are conducted in addition to the appraisal process, and are for the purpose of providing a basically satisfactory security. In other words, no proposal is accepted for appraisal which does not serve a market agreed by the Administrator to represent a real housing need in the community, and which does not promise a building which will provide for that market in a satisfactory way.

The appraisal process itself is exhaustive and includes in it the safeguards of using several methods and of obtaining several independent judgments in matters of valuation. Thus, initial examinations are made in the field by men familiar with conditions in the locality of the project. These findings are reviewed in a zone office and a complete report and recommendations forwarded to Washington. In the Washington office all details of the appraisal are again checked by five men and afterwards passed upon by a board of review of five men especially set up for the purpose.

In this process the project is first viewed as a going concern operating at rentals previously determined to be proper. Operating costs, taxes, and so forth, are carefully estimated. In every case it is assumed that rentals will decline over an estimated economic life and provision is made for such decline. Allowance is also made for vacancies and for depreciation. From such studies an estimate of the value of the project as a capitalization of net return is calculated. This estimate will represent a maximum of valuation acceptable to the Administration, but it does not comprise the whole of the determinations upon which the final conclusion is made.

For instance, where comparable projects already exist, a comparison with the values of those projects is made. In addition, in every case careful estimates of building costs are made from a thorough survey of materials and labor by experienced construction-cost estimators. The miscellaneous costs, such as interest, insurance and taxes during construction, financing, legal, and organization expense are also carefully estimated.

In this whole process the determination of the portion of the total value contributed by the land under the development is an important and critical matter. In view of the wording of the act requiring valuations to be made on a completed and going-concern basis, the cost of the raw land, or of comparable parcels where such cost is obtainable, while a matter for consideration, is plainly not the controlling factor. In fact, such cost has been, in the case of our operations, rarely obtainable, or, if so, rarely has it given a proper clue to a reasonable final determination. The long period of inactivity in real estate preceding the establishment of this Administration and the violent, though in many cases temporary, collapse of realty prices resulting from that inactivity have made extremely difficult, if not absolutely unjust, the gaging of normal values by comparison with such transfers as have taken place.

Moreover, in many cases no actual change in the ownership of land has taken place, the then owners taking part in the new corporation. Frequently, such land has been held for a long period of years without any sales or developments which might give a bench mark of value prior to the new project. In many cases the value arising from important public improvements in the form of highways, sewers, transportation lines, and so forth, or the change of the permissive land use in the neighborhood, may not have been reflected in sales prior to such occurrence. It is an accepted fact that land which may have lain dormant for a long period may, with the possibility of use through community growth or public improvements, rapidly acquire value. Again, land which may be of little value for one use may potentially have great value for another.

It must also be borne in mind that these rental projects are in most cases large enough to result in the creation of entire communities of as many as 3,500 persons, a fact that cannot be ignored in a consideration of value. Bringing into use, as they may, large tracts of undeveloped land, they do through the installation of roads, sewers, schools, and other public improvements, the erection of shops and community facilities, and the stimulation of construction in surrounding areas, materially affect the aspect of the areas in which they are located and enhance values above the market price of raw acreage before the concept of the project had been revealed.

It is, in fact, impossible to arrive at a fair and proper determination of land value without taking into consideration the various uses to which it will be put, and, in accordance with theories accepted by appraisal authorities, that use which on valid market data promises the maximum return from development will be the determining one in arriving at a valuation. It must follow that in considering a definite use, such as a housing project, the returns to be conservatively estimated as arising from such use will provide a reasonable basis for land-value appraisal. The basis of valuation called for by

the act and followed by the Administration, if exercised with caution and in face of all obtainable data, is therefore a valid one. This point of view has been supported by all previous witnesses who have been questioned on the subject, Mr. Brigham, Mr. Johnson, and Mr. Fahey.

In confirmation of the reality of the concepts above outlined, we have had examples where projects already operating have, in order to expand their developments, purchased additional adjacent land at prices greatly exceeding valuations made in connection with the original project. I may also mention a refinancing negotiation now under way in respect to one project wherein a lending institution seeks the loan without insurance on a land-value basis twice as high as we allowed in the original appraisal.

Recognizing, however, the difficulties inherent in achieving absolutely precise judgment in such matters, the Administrator has introduced additional precautions in establishing the maximum amount of an insurable mortgage. Thus, despite whatever final valuation may have been agreed upon as reasonable, no mortgage will be accepted for insurance which exceeds the F. H. A. estimate of the cost of the physical improvements, as has been previously mentioned; or which does not at least have an equity comprising the land, free and clear of other incumbrances, plus cash equity sufficient to cover all miscellaneous costs, for interest, taxes, and insurance during construction; legal, financial, and organization expenses; and a working-capital fund; or which does not, also, have all of the other controls outlined earlier in this statement.

In addition to the above procedures, effort is made to assure that the project, as it has been appraised and approved, will in fact be executed in accordance with the terms of the commitment. Before construction starts a schedule of payments of the mortgage proceeds is carefully determined from estimates of work to be required in relation to the total amount of the mortgage. Payments are made monthly by the lending institutions as the work proceeds only after the amount of work performed as well as its compliance with plans, specifications, and F. H. A. requirements has been checked by resident F. H. A. inspectors. This practice, except in its greater thoroughness, is not dissimilar from that which has long been followed by careful lending institutions in connection with construction loans.

Recently the whole procedure above described was submitted for review and comment to a conference of representatives of six of the country's most important financial institutions which have been the most active lenders on rental projects, and, after study, was strongly commended by them as offering the best protection in the private lending field which had thus far been devised.

Through the controls established by law and regulation, and through the procedure established for examination, appraisal, construction inspection, and management supervision, the Administration feels that it is not only providing a reasonable and proper protection, as insurer, to the housing-insurance fund and to the Government, but that it is performing an important service to the country in providing the means for adding to the soundness of mortgage lending on income properties, and for increasing the supply of attractive, convenient, moderately priced rental accommodations for families which otherwise would be without a choice of living quarters of a degree of amenity in any way comparable to that available to the homeowner.

In respect to operations to date under section 207, it may be noted that the average amount of mortgage per room insured by the Administrator has been $1,004, as against a legal limit of $1,350, a limit which was set against the protests of builders and developers. It may also be noted that in the average project the value of improved land represents only 10.4 percent of the total capitalization.

We have insurance outstanding on $71,194,500 worth of mortgages on projects as of January 31, 1939. In the operating period during which this amount of insurance was accumulated, we examined projects totaling in proposed mortgage amounts $743,819,654, from which we have been able to consummate only a small percentage.

Mr. GIFFORD. How much?

Mr. COLEAN. $750,000,000 that we have examined, and we have only found a little over $71,000,000 that could be insured.

Numerous additional proposals were rejected during the course of preliminary interviews. Of the projects completed and in operation over a period of 6 months or more, many have obtained occupancies of 100 percent, a great majority have occupancies of 90 percent or better, and there are none which do not appear to be operating successfully. These figures are cited simply as evidence of the fact that we have been endeavoring to follow a conservative policy and have limited our insurance to those proposals, the soundness of which we were thoroughly convinced after exhaustive examination.

Mr. GIFFORD. I should like to ask Mr. McDonald a few questions. I want to take up with you, Mr. McDonald, one or two phases of criticism, and I want you to feel comfortable about it. A year ago when this thing was brought up I protested and asked many questions in revealing my worry that the equity in these large loans might be practically nothing. That is, they could put in high land values by means of discounts and arrangements with contractors and subcontractors so there might be no actual money put up by the promoters for that 20 percent. I again continued with that sort of questioning this year. As a result of that I have received a large number of letters and clippings, as you will see on my desk, relating to St. Louis mortgages. Now, if you had $750,000,000 in applications for mortgage insurance, and you have approved only $71,000,000 worth of insurance, can you think of the most outstanding reason that you could give for refusing those applications. What I am getting at is, were the proponents of these loans simply promoters in the first instance?

Mr. MCDONALD. Mr. Colean, assistant administrator, directly handles section 207, and he is more familiar than I am with the details of it, but I do know from the tremendous pressure that is put on me constantly that promoters with visionary plans have little difficulty finding someone to sponsor them. They are even brought in by some very prominent people in Washington, who approve their projects, some of which have reached the blue-print stage, and some of which have not. It do not think we have as many of these visionary plans presented now, but at first it looked like a very attractive field for promoters.

Mr. GIFFORD. I think that is a startling statement, that you have been forced to refuse so many, and that you have outstanding only $71,000,000 of such insured mortgages. The reason I wanted to ask

you about the St. Louis projects is to use them simply as an illustration of your procedure. I imagine that you are familiar with these St. Louis projects, and that is why I wanted to ask you about them.

Mr. McDONALD. I would rather have you ask Mr. Colean, as he could give you specific information on it, being more familiar with the details.

Mr. GIFFORD. You came from St. Louis, did you not?

Mr. McDONALD. I did; yes.

Mr. GIFFORD. And are you personally acquainted with the promoters of those two projects we hear so much about?

Mr. McDONALD. Yes, sir; I know the architect slightly.

Mr. GIFFORD. What is his name?

Mr. McDONALD. Bradshaw, I believe.

Mr. GIFFORD. Mr. Bradshaw; and you know him only slightly?

Mr. McDONALD. Yes; I know him slightly.

Mr. GIFFORD. Is he an architect or a promoter?

Mr. McDONALD. I think he is a good architect, or he is supposed to be.

Mr. GIFFORD. The letters I have received on this subject say he is more of a promoter than he is an architect.

Mr. McDONALD. He has planned some attractive subdivisions in St. Louis. I do not know where you draw the line between a promoter and an architect, but he has built some beautiful things—laid out some fine subdivisions and built some fine apartment buildings.

Mr. GIFFORD. Was he connected with some of those projects in St. Louis that went into receivership?

Mr. McDONALD. Yes; he was connected with some of those that went into receivership.

Mr. GIFFORD. I also notice in some of the letters that have come to me that some of these promoters are getting some juicy returns.

Mr. McDONALD. I do not think there is a single large rental project in St. Louis that has not gone through receivership at some time.

Mr. GIFFORD. But it is said they are now getting juicy returns.

Mr. McDONALD. A former associate of mine in business told me no less than 6 weeks ago that he bought in $100,000 worth of apartments, and that they were netting him 15 percent return.

Mr. GIFFORD. Was Mr. Bradshaw one of those who profited in these transactions?

Mr. McDONALD. I do not know; I do not know anything about Mr. Bradshaw's personal affairs.

Mr. GIFFORD. You do not?

Mr. McDONALD. No; but I do know when this project was first brought up I went out and looked at the site. It is an excellent site, lies beautifully in a good location, on a big knoll, back from two main highways. While a great deal of talk has been going on about the price of the land, nobody seems to question the fact at all that the contractor had to spend about $45,000 in bringing in light, sewer, and water improvements to the project. As I say, I went out and looked at this property, and it is on a wonderful site. The man who showed it to me, the original promoter, Mr. M. E. Singleton, is now dead.

Mr. GIFFORD. You do not consider Mr. Bradshaw and Mr. Deal the sponsors at the present time?

Mr. McDONALD. Yes, sir; I think they are the sponsors now; but the original sponsor was a man named M. E. Singleton, a very well-known and capable man.

Mr. GIFFORD. I want to get the picture of the promoters and know something about them.

Mr. McDONALD. This project was originally promoted by a man named M. E. Singleton, who was one of the oustanding citizens of St. Louis, a man worth several millions of dollars. He was picked out during the war to be head of the Ordnance Division of the United States Government in the St. Louis section, and he handled many millions of dollars in ordnance contracts during the war with the greatest credit and honor to himself and at no salary whatever.

Mr. GIFFORD. But the fact is that Bradshaw and Deal are the promoters now?

Mr. McDONALD. Yes; I think they are the owners of the project, as far as I know.

Mr. GIFFORD. That means the promoters, does it not?

Mr. McDONALD. I suppose so.

Mr. GIFFORD. And they formed the corporation, did they not?

Mr. McDONALD. Yes.

Mr. GIFFORD. Was Mr. Bradshaw connected with the Coronado Hotel?

Mr. McDONALD. Yes, sir; I am told he was connected with it, but I do not know.

Mr. GIFFORD. I want it to appear in the record that he is said to receive a $9,000 salary now for acting as some sort of a manager for that hotel. He must be a very able and brilliant man in order to be engaged in so many matters and he might appeal to you, possibly, as being a very capable person as a promoter. It would appear that way.

Mr. McDONALD. That had no particular bearing upon our judgment in this particular matter.

Mr. GIFFORD. Does not the promoter himself have a great deal of bearing on a project and its probability of success? That is the point I am trying to bring out, that Deal and Bradshaw formed the corporation, and they put nearly all of the stock into the hands of clerks and stenographers.

Mr. McDONALD. I do not know anything about that.

Mr. GIFFORD. I am asking if there is any significance in that to you?

Mr. McDONALD. There may be, but to me——

Mr. GIFFORD (interposing). Would it influence you in your insuring the loan if you knew that?

Mr. McDONALD. I think we passed upon the insurance of the loan long before the stock was issued. How they issued the stock, and in what denominations it was issued or authorized to be issued, or whether they issued it to themselves, to their sisters, uncles, or sons, I do not think is a matter of our particular business.

Mr. GIFFORD. Apparently the clerks there, these young ladies in the office held the stock.

Mr. McDONALD. I think lots of times a man owns property in his wife's name. I think that is a rather common practice.

Mr. GIFFORD. You do not see any significance in that?

Mr. MCDONALD. I do not see any. Do you think that——

Mr. GIFFORD (interposing). I am simply asking you that question, because there is a great deal of the correspondence referring to it. I am not stating my own opinion as to the significance of it. I am simply asking you. If there is no significance in it to you, I will not press it.

Mr. MCDONALD. Oftentimes it is done because tax matters are involved, and business people are guided by their attorneys in reference to tax matters. I notice a great deal of significance has been placed on the fact that this property was accumulated in the name of a "blind" person.

Mr. GIFFORD. Was what?

Mr. MCDONALD. The property was accumulated in the name of what is called a "blind" person. That is, title to the property was accumulated in a "blind" person's name.

Mr. GIFFORD. I am not saying there is anything wrong about that. I am simply asking you.

Coming back to my own doubts expressed a year ago, about promoter's write-ups and demands for commissions from subcontracts and others for granting contracts, let us explore the St. Louis projects further.

Mr. Colean here has made a plausible statement about the method of determination of the value of land. But you recognize that when land is bought at $35,000, and is immediately marked up to $171,000, it is quite a shock to the uninitiated, is it not?

Mr. MCDONALD. One hundred seventy-one thousand what, Mr. Gifford, dollars or stock in that amount?

Mr. GIFFORD. As I have it it discloses that revenue stamps in the amount of $43 were first put on the deed. That is a common practice to put on more revenue stamps than needed, in order to make people think you paid more money for the land than you did.

Mr. MCDONALD. I am told they put up stock, and under the laws of Missouri the stock has to be put in at a certain valuation per share.

Mr. GIFFORD. Yes; but putting it in for mortgage value it was accepted for $171,000, of course.

Mr. COLEAN. I can tell you what happened during that transaction.

Mr. GIFFORD. I thought you were familiar with the situation in St. Louis, and that I would like to have your opinion because we have two cases in St. Louis of that kind. The other one was a case where they bought the land for something like $73,000 and they put it in for $300,000. This involved the same people on both projects. I would like to have you tell me what you think about that, Mr. McDonald?

Mr. MCDONALD. If they put it in for $300,000 cash I would say it would be questionable. But if they put it in for $300,000 of stock in a corporation that has yet to prove its earning power, that is something different.

Mr. GIFFORD. They put it in to account for the 20 percent of the mortgage, of course.

Mr. MCDONALD. Part of it.

Mr. GIFFORD. But they put it in to make up the 20 percent. What would be a fair amount to allow for an architect's fee on a $2,000,000 proposition?

Mr. COLEAN. Six percent would be fair, but 4 percent was charged on this one.

Mr. GIFFORD. How much would the architect charge on a $2,000,000 proposition?

Mr. COLEAN. On this job he got 4 percent in stock.

Mr. GIFFORD. Four percent?

Mr. COLEAN. Yes; that would be 4 percent of the construction cost, which was about $1,700,000.

Mr. GIFFORD. He being the architect, of course, he could put that in.

Mr. COLEAN. But he had to pay for his work, and he did not get any cash at all. It costs an architect something to produce his plans.

Mr. GIFFORD. I wonder, Mr. McDonald, if 4 percent was the limit of his charge. Surely the architect gets more than that.

The CHAIRMAN. The gentleman stated 6 percent would be a reasonable charge, and in this case it was only 4 percent.

Mr. MCDONALD. It costs an architect quite a little bit to do business, and it is estimated half of the fee is overhead expense.

Mr. GIFFORD. In general would you consider an architect and a contractor proper copromoters for a matter of this kind?

Mr. MCDONALD. I have discussed that with Mr. Colean many times in the last year and he is convinced, as he will tell you, if you ask him, that, notwithstanding the various openings that you leave for an architect, using such services is the cheapest way to build a building. We place a total valuation on the project and we hold the corporation to a limited dividend under F. H. A. rules and requirements, so that we have in effect control over any money that comes out of that project.

Mr. GIFFORD. Mr. McDoneld, I ask you that question, because so many of these things have come to me. Were these projects approved by your regional office?

Mr. MCDONALD. I do not think we had a regional office at that time, did we?

Mr. COLEAN. These projects were first presented to us 2 years ago. No, sir; we did not have regional offices at that time.

Mr. GIFFORD. That was before you had a regional office out there?

Mr. COLEAN. That is correct.

Mr. GIFFORD. You usually would appraise through them?

Mr. MCDONALD. They do now. Now they first come to the regional office.

Mr. GIFFORD. It comes to me that inquiries about the regional office were made at that time, and they said they were moving about that time.

Mr. COLEAN. They had not been created at that time.

Mr. GIFFORD. As we proceed into it, we find that much complaint is made about the rezoning of this section and that questionable tactics were indulged in. Do you know anything about that?

Mr. MCDONALD. I would not know anything about that. I am not in a position to answer that question.

Mr. GIFFORD. And you certainly would not be to blame for that.

Mr. MCDONALD. As I recall it, one feature of the project that we insisted upon was that provision of a school be guaranteed to us.

Mr. GIFFORD. I have a letter criticizing the way in which that property was rezoned.

Mr. FORD. That would be a matter for the local city council at any rate.

Mr. MCDONALD. This is not in the city of St. Louis, Mr. Ford.

Mr. GIFFORD. Then the real estate men's organizations are protesting very strongly hoping that they might stop the second project. You say most of these apartments are filled. In St. Louis the first project was finished months ago. How many occupants are there in it at the present time?

Mr. COLEAN. We just recently accepted the building as being a substantially completed building—only 2 weeks ago. Part of the project was finished along toward the end of September, and they were willing to accept occupancy then; but the property was in very bad shape, and tenants had to go over construction roads to get there, and so forth, and besides they had missed the rental season, so that they got very little occupancy in the building. The project is now completely finished.

Mr. GIFFORD. But the fact is these people have sent these letters saying that only 35 out of 150 apartments were occupied.

Mr. MCDONALD. That is about half true.

Mr. GIFFORD. About half true?

Mr. MCDONALD. Yes.

Mr. GIFFORD. We are told that the plumber and subcontractor was also the city inspector, who approved the work himself. Was that brought to your attention?

Mr. MCDONALD. That might be true. I do not know, but I do not think it would be particularly significant.

Mr. GIFFORD. You do not think it would be particularly significant?

Mr. MCDONALD. Not in this particular case, because it is a little village, and we have our own inspectors who are rigid in inspections and very competent. In this little village the plumber may also be mayor, and for all I know he may be also a lieutenant colonel.

Mr. GIFFORD. He was paid by the city to approve his own work.

Mr. MCDONALD. But F. H. A. has inspectors on these jobs who are rigid inspectors, and we very carefully pick them.

Mr. GIFFORD. I have statements here about the agent who was supposed to approve the electrical work. When he did not approve it he was discharged, and they put the man under him in charge. He gets half of the fee for approving that work, and it is claimed he paid the promoters one-half of that. It is supposed that general contractors often receive from their subcontractors commissions or kick-backs. It seems that the promoters being the architects and contractor might force subcontractors to join in furnishing a part of the equity and make high original estimates. I have a letter here stating that a subcontractor had to sign letters approving this project. He probably felt forced to do so, as before stated. I know it is often supposed that the subcontractors are compelled to kick in a part of their profit, and make high estimates accordingly. They help to make up the 20-percent equity probably to enable them to get the job.

These projects have caused the St. Louis real estate boards and other organizations much concern. I am under the impression that St. Louis has a tremendous number of vacant places for rent, and that this property was not needed. I cannot come to any other conclusion from the mass of evidence that I have.

I want to congratulate you in this respect: That is, you were given the job to get this housing proposition going in a hurry. It was the thing to pull the country out of the depression. But you have been showing $71,000,000 of insured mortgages to date on new construction. I want to congratulate you for doing your best. I ask you plainly after your experience, is it not very difficult to protect the Government against the wiles of promoters?

Mr. MCDONALD. It is the most difficult job I have ever had.

Mr. GIFFORD. I predicted this a year ago. My sympathy goes out to you, really. I do not claim it could be done any better. I do claim that results are about as predicted.

Mr. SPENCE. Did you ever build a house?

Mr. GIFFORD. Yes, sir.

Mr. SPENCE. And you have had a lot of trouble protecting yourself there, too, have you not?

Mr. GIFFORD. Yes; I am not a builder, and contractors have me at their mercy.

Mr. FORD. You would be if you had any considerable experience in building.

Mr. GIFFORD. If Mr. Ford wants to test me on that I will say that I own much vacant land. I am indeed land-poor. I might be tempted to go into this scheme if I could get a kick-back from the contractors, and have my own plumber and electrician inspect the work.

Mr. MCDONALD. I would appreciate it, Mr. Gifford, if you would let Mr. Colean give you a few points on that that I did not develop, if you would be good enough to hear him.

Mr. GIFFORD. I do not want to bother Mr. Colean at all. He came to me and talked with me about it. I am very familiar with it, and I know he is doing the very best he can under the circumstances.

Mr. FORD. I would like to make one observation regarding this, and that is the regional office had never seen it at all. As a matter of fact, there was no regional office in existence at the time this thing was initiated. That is the fact insofar as the regional office is concerned, and I would not be surprised if you checked back on each one of those charges, one on top of the other, you would find the same weak bottom, the same lack of foundation, as to every one of them.

Mr. GIFFORD. There is nothing to this at all, is there Mr. Ford?

Mr. MCDONALD. They give no effect to the $5,000 option or to the $45,000 that was spent to bring in water, sewer, and light to the property, and they talk about women taking title to the property in that case. That is nothing unusual in this country. Women took title to the building in which the newspaper that published that article is located.

Mr. FORD. Whenever the property was valued, regardless of the time, if it had not shown the capacity to pay out, would you have insured it?

Mr. MCDONALD. No, sir; never in the world. The sponsors also had $125,000 cash that they put in the bank, subject to my check, and the New York Life Insurance Co., with others, made appraisals independently at different times which checked within $12,000 of ours, which is pretty close on a $1,750,000 proposition.

Mr. SPENCE. Yesterday we were discussing the question of brokerage fees?

Mr. McDONALD. Yes, sir.

Mr. SPENCE. I think that is material, because I think that may develop into a racket. I notice in your regulations which appeared in the Federal Register of February 1938, section 4, item 12, you say:

> In addition to the charges hereinbefore mentioned, the mortgagee may collect from the mortgagor only recording fees and such appraisal fees and cost of title search as are approved by the Administrator. Nothing in this and the preceding subsection shall be construed as prohibiting the mortgagor from dealing through a broker, who does not represent the mortgagee, if he prefers to do so, and paying the broker such compensation as is satisfactory to the mortgagor.

Is that rule still in force and effect?

Mr. McDONALD. Yes; and I think that is just an ordinary rule of life, Mr. Spence. I do not see how you are going to stop a man if he feels he would like to get advice or help from somebody, and he wants to go to a man who puts up a sign saying, "Real Estate Loans and Mortgages," and says, "Can you get me a loan on my house?" and the broker takes him down to the bank and introduces him to the bank, and then charges him for it.

Mr. SPENCE. I do not believe you could prevent him from doing so, but is not that policy an invitation to the broker to make a brokerage charge?

Mr. McDONALD. I do not think it is an invitation; but I think a person is very silly to pay a broker any commission for getting a loan on his house, when banks, insurance companies, and building and loan associations are advertising everywhere—"loan, loans."

Mr. SPENCE. That is true, but there are always gullible people.

Mr. McDONALD. Yes; I heard of a fellow who bought the Washington Monument the other day.

Mr. SPENCE. There are others who are willing to buy the Washington Monument and the Brooklyn Bridge.

Mr. McDONALD. If you make it more rigid it would be entirely satisfactory to me; but I do not see how you can penalize a bank by saying its insurance will be invalid if it is disclosed that somebody had to pay a brokerage fee to get a loan.

Mr. SPENCE. I do not object to a man getting reasonable fees but I just thought that this might develop into a racket, and has probably in some way. You probably know more about that than I do, but it seems to me that the door is open to make it a racket.

Mr. McDONALD. I made some investigations before I came here, because I wanted to be sure and checked up on how much of that practice was in vogue, I find there is very little of it. It is dying out rather than increasing.

Mr. SPENCE. Mr. McDonald, have you stated the proportion of business you have done with the mutual savings banks and the building associations and the commercial banks? If you have not stated that I wish you would put that in the record.

Mr. McDONALD. Yes; it is in the record now.

Mr. SPENCE. That is all.

Mr. WILLIAMS. I want to ask Mr. Colean a question. I understand there were $71,000,000 of acceptances on these projects and there has been a refinancing on one of them?

Mr. COLEAN. In two of them.

Mr. WILLIAMS. That is due to what cause?

Mr. COLEAN. The fact that the owners got better propositions than we were willing to give them.

Mr. WILLIAMS. It was not due to their being in what you might call deep water, or a mistake having been made in having granted the loan?

Mr. COLEAN. No; I do not think they could get any refinancing in cases of that type.

Mr. CRAWFORD. Mr. Chairman, I would like to ask Mr. McDonald one or two questions, and may we insert in the record at this point the letter that Dr. Fisher wrote to me in answer to the questions I asked him yesterday?

The CHAIRMAN. Yes.

(The letter referred to is as follows:)

FEDERAL HOUSING ADMINISTRATION,
Washington, D. C., March 15, 1939.

Hon. FRED L. CRAWFORD,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN CRAWFORD: The following are the figures which you requested this morning at the hearings:

During the year 1937, building permits were issued in the District of Columbia metropolitan area for the construction of 5,134 one- and two-family dwellings. During that year the Federal Housing Administration accepted for insurance 718 mortgages under section 203, of which 514 were on new homes.

During the year 1938 building permits were issued for the construction of 6,140 one- and two-family dwellings. The Federal Housing Administration accepted for insurance 1,414 of which 1,189 were on new homes.

One of the explanations for the relatively smaller proportion of new homes which our business represented during the year 1937 is that we made a very careful survey in the spring of 1937 of the building situation, and became concerned about the amount of building of new homes that was taking place in higher-price ranges, particularly homes that were offered for sale at above $7,500.

As a result of this survey, we restricted very severely our operations in the price ranges above $7,500. During 1938, partly as a result, we believe, building of single-family homes occurred more largely in the lower ranges.

We are glad to furnish this information to you, and will be glad to have you include it in the record if you wish to do so.

Very truly yours,

ERNEST M. FISHER, *Economic Adviser.*

Mr. CRAWFORD. I have a sheet here published by the Glen Cove, Md., suburban development, J. R. Hendrickson, illustrated in this manner, showing the type of homes which he has constructed. I understand these run in size 18 feet by 23 feet 4 inches. It shows them to be F. H. A. homes, 10 percent down, and 25-year payments with 5-percent interest. I made some calculations to try to find out what type of wage earner or salaried man should live in these small homes. On the basis of 25 yearly payments I calculate that on the $5,400 homes one would have to pay $14,137 for housing, which does not include the heat. Over a 25-year period he would earn about $31,250, at $1,250 per annum, and his housing would cost him, with heat, a total of $17,887, or $716 a year, and would leave him $534 per annum out of a total of $1,250 earned per annum with which to buy things other than housing.

Now, moving that up to the man who earns $1,500 per year, I find that he will have only $65 per month for living expenses other than housing, and that he will be paying $60 a month for his house. When we move up to a man drawing $1,800 per year he is paying

40 percent of his income for a house, and when we get up to the man drawing $2,000 a year he is paying 35 percent of his income for a house. So, I find that I have to move into the group where a man earns $2,880 per year on the basis of payment in 25 years in order to come within the general rule of spending not in excess of 25 percent of income for housing.

Mr. McDONALD. That is 20 percent with us.

Mr. CRAWFORD. You referred to 20 percent in your statement here.

Mr. McDONALD. Yes, sir.

Mr. CRAWFORD. Then I took your clip sheets and went through those—took them just as they came. Out of 35 homes advertised and sponsored as these are advertised and sponsored I find that the average insured mortgage is $4,883, which comes back almost exactly to this proposition. I found that in that list of 35 homes, with 15 States represented, taken from the clip sheets, there are 18 of them under $6,000 valuation, and there are 17 of them over $6,000. The reason I make this presentation is to ask you if you know of any practical way on earth that the building industry under the F. H. A., or in any other manner, can get the cost of houses down to a point north of the Ohio River, we will say, including New York, Pennsylvania, Michigan, Ohio, Indiana, Wisconsin, and Minnesota, where a man drawing from $1,500 to $2,000 per year, wages or salary, can ever own a home, operating within the F. H. A. program as it is now being conducted?

Mr. McDONALD. The best way to do it is to buy existing houses.

Mr. CRAWFORD. Is there any other way he can do it?

Mr. McDONALD. Not to any large extent at the present moment, but it may develop. Existing construction occupies the same position in the housing field today as a second-hand car does in the automobile field, and gives more value for less money. However, we have developed something that may be of interest to you and to the rest of you gentlemen. I do not know how far the plan will go. That is our Fort Wayne project. I do not know whether you have heard of them at all or not. We have insured a mortgage on a project in Fort Wayne, Ind., that is unique and unusual, under section 207, with the aid of the municipal housing authority in Fort Wayne, in which a man is able to get a very comfortable house at the rate of $2.50 a week.

Mr. SPENCE. Was that built with relief labor?

Mr. McDONALD. Yes; that was built with relief labor, but they could be built with any other kind of labor. The houses are prefabricated, and they are built out of composition material and erected on the job. The material in them cost about $700, and the overhead about $200. While it is true these were built with relief labor, as I say, they could be built with regular labor. How much labor would we have to add in if we did that?

Mr. WATSON. That was on decreasing amounts. It started approximately at $900, and when we got 40 or 50 houses completed it was down to a little over $500.

Mr. McDONALD. That would make the houses cost around $1,400 or $1,500; but it is, of course, a small house.

Mr. CRAWFORD. I took the time to see the movie of that operation which was given over in the House Office Building and discussed the possible price with the men who were in charge with the presentation

of it. Now, as Members of Congress we have labor unions who put thumbs down on that kind of an operation. Let me ask you this question: Unless technological improvements and advancement are brought into the building of houses or a plan along the lines, we will say, roughly, of the Fort Wayne plan is brought out, do you know of anything at the present time on the horizon which will permit people drawing $1,800 or less per annum being able to qualify on new homes under the F. H. A. plan?

Mr. McDONALD. No, sir; I do not, for all families in that income class. The existing construction properly repaired is the best answer to that, and the fact that many families in that income group probably should be renters, not home owners, and many prefer to rent.

Mr. CRAWFORD. That was covered in your statement a day or two ago?

Mr. McDONALD. Yes, sir.

Mr. CRAWFORD. I notice this in your clip sheets, which rather surprised me. It says:

FEDERAL HOUSING ADMINISTRATION IS PERMANENT

The National Housing Act is permanent legislation, and the Federal Housing Administration a permanent governmental agency. Debentures issued against the Housing Administration's mutual mortgage insurance fund are guaranteed by the United States Treasury.

I wondered if that kind of an advertisement in this clip sheet, we will call it, was strictly in accordance with the facts, when you consider, or, at least, some of us have considered, that it was not a permanent agency or permanent legislation.

Mr. McDONALD. I would like to see that, because my contention, in the first place, is that the F. H. A. is self-supporting and should be a self-supporting institution. We will have surplus income over expenses next year of around $5,000,000, and an additional $1,000,000 if you will discharge title I, making $6,000,000 over and above all of our expenses. Currently our losses have been running less than the prepayment premium fees we receive, so that all of that should be added as surplus. Our reserve funds are now $25,000,000, and it is my feeling that the liability of the Government under its guaranty of our debentures is a contingent liability and not a direct one. Therefore, I do not think we should allow anything like that statement to go out, because on theory and in principle we believe we can stand on our own feet and on our own bottom.

Mr. CRAWFORD. You do not mind if we keep that, do you?

Mr. McDONALD. No; I want to get the date of it.

Mr. CRAWFORD. Yes; take the date.

Mr. McDONALD. February 14.

Mr. CRAWFORD. I want to know if you have many complaints similar to this. Here is a copy of the Honolulu (Hawaii) Times of May 7, 1938. I am not personally acquainted with the people who publish this paper, and I do not know how it stands in the islands, but on the front page it carries this kind of a headline: Uncle Sam, Pawnbroker. It is a very bitter complaint against the F. H. A. operations in the island. It makes this statement:

And now, with the three gilded balls of the pawnbroker's trade they have added to the Washington coat of arms, the whole Nation seems to have adopted the "never pay for anything that you can get on time policy"—

And they go ahead and complain about the F. H. A. plan coming into Hawaii and almost enticing people to purchase homes for which they cannot pay. Do you have many attacks and criticisms of that kind from the newspapers?

Mr. McDONALD. No; not many. As a matter of fact, I must say that the Republican press has treated the F. H. A. better than the Democratic press.

Mr. CRAWFORD. Do you know which this is?

Mr. McDONALD. No; I do not; but I know the New York Herald Tribune, the Wall Street Journal, and a good many of the New England papers, and many of the Republican papers elsewhere, have given our agency some very complimentary lines, but we have some people who throw rocks at us, too.

We have been criticized because we did not give the people of Puerto Rico the same privileges we give the Hawaiians with respect to buying homes. So, I sent our general counsel and some inspectors down there to go over the field, in order to answer these persistent inquiries, and I also thought I would compare the situation to Hawaii. I sent Mr. Flanders, then deputy administrator, out there, some time ago. Recently we carefully went over the records of each State as to its percentage of delinquencies, and what office do you suppose had the least delinquencies in payments of any of the 48 offices in the United States and its Territories? Hawaii. We have never had a foreclosure there, and the delinquencies are in better shape than anywhere else, and I do not know why this man is kicking.

Mr. CRAWFORD. I think I could answer that for you, as to why it is. Hawaii being very largely a pineapple and sugar plantation field, with very few whites placed here and there throughout the island, it has reason to be the most prosperous section of the United States as it has been during the past 10 years. Now, I think that accounts for the lack of delinquencies, and it is under good management.

Mr. FORD. I went to Hawaii a couple of years ago on a trip, and I was there at the same time Mr. Flanders was over there. While I was not there officially, they tied my visit up with Mr. Flanders being there. They took me around all the time because they thought I wanted to help them get F. H. A. They were just yelling their heads off for it, they wanted more F. H. A., more F. H. A., and more.

The CHAIRMAN. Mr. McDonald, we thank you. You may be excused. We will not need you any more. We would like to have Mr. Colean return tomorrow.

Mr. McDONALD. Thank you.

(Whereupon, at 12:15 p. m., the committee adjourned until tomorrow, Friday, March 17, 1939, at 10:30 a. m.)

AMENDMENTS OF 1939 TO NATIONAL HOUSING ACT

FRIDAY, MARCH 17, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Henry B. Steagall (chairman), presiding.

Present: Messrs. Steagall, Williams, Ford, Brown, Gore, Mills, Gifford, Crawford, Simpson, Kean, Sumner, Miller.

The CHAIRMAN. All right; we will hear further from Mr. Colean.

STATEMENT OF MILES L. COLEAN—Resumed

Mr. COLEAN. Mr. Chairman, I have here a statement of some facts relating to the Manhassett Village project, which apparently the committee would like to have.

The CHAIRMAN. We will be glad to have it.

Mr. COLEAN. I will read this, very briefly:

This project is located in an area in St. Louis County, now being rapidly built up as a preferred residential location, on high land particularly adapted to a large rental housing development.

Before the inception of this project, the land had not been subdivided, due to its lack of accessibility and to its being held out of the market for other purposes. In order to place the land in a suitable condition for the building of a project, it was necessary that approximately 1 mile of streets connecting the property in two directions with main highways, together with connecting sewer, water, gas, and electric lines be installed. In order to render permissive the type of project proposed, a change in zoning was necessary; and, in order to accommodate the increased population brought by such a development, a new school was advisable.

It was considered by the examining officers of the Federal Housing Administration that when the above requirements had been accomplished the land would at least be comparable as to value with residential lots in adjoining areas, and would fulfill all prerequisites for a rental housing project.

Section 207 of the National Housing Act instructs the Administration to base its determinations upon what it "estimates will be the value of the property or project when the proposed improvements are completed." In appraising this proposal, it was estimated that when the project was completed it would justify a valuation of $2,016,000. It may be noted that an appraisal independently made by the New York Life Insurance Co. before making the loan compared within $16,000 of this figure.

This valuation took into account the required utilities mentioned above. It assumed the erection of the new school. It recognized the importance of a superhighway to be installed closely adjacent to the property which would bring it nearer in driving time to the center of the city. It recognized, moreover, that the creation of a community of over 1,000 persons with the facilities necessary to serve them, would have the tendency greatly to enhance values for a considerable area surrounding the property over those existent before the improvement was completed.

On the basis of the above valuation, the Administration agreed to insure a mortgage in the amount of $1,600,000 and to accept an equity valuation of

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$416,000. This equity was subscribed in stock by the sponsors and formed the basis for calculating the limited dividend permitted by the Administration, the only cash return allowed to be paid on the equity investment.

Of the amount of this equity, $245,000 represented cash or its equivalent in addition to the mortgage proceeds, estimated to be required for the completion of the project, exclusive of the land and improvements outside the property. This requirement was met by a cash stock purchase of $124,000, and by the acceptance by the builder and architect of stock estimated at $121,000 on account of fees as approved by the Administration. The $124,000 cash was deposited by the sponsors in an account jointly controlled by the Administration and could be withdrawn only for expenses incurred in connection with the project.

The remaining amount of the equity valuation was attributed to land. It has been shown that the sponsors of this development were able to acquire the land in its then inaccessible and unimproved condition for $44,000, in two payments of $5,000 and $39,000. In addition, approximately $45,000 was involved in the installation of connecting streets, sewers, water, gas, and electric lines, and drainage, all outside the property lines, and outside any consideration by the F. H. A. in estimating the costs of constructing the project. The sponsors were, in view of these extensive external improvements, in view of the enhancement in value arising from the project as a whole, in view of the estimated earning power of the project as a going concern; and, moreover, in view of comparable prices being currently offered for residential lots in the neighborhood, permitted by the Administration to issue to themselves stock in the amount of $171,000, representing the value of the fully improved land under the finished development, for the purpose of completing the allowance permitted by the Administration as a basis for computing the limited dividend return.

The land was, it must be emphasized, transferred to the limited dividend corporation for a stock payment without any cash consideration. Not only did no cash change hands in connection with this land transaction, but the net profit, if any, accruing therefrom must be deferred until such time as the project has proven its success and all of the conditions of the insurance contract fulfilled.

Any returns on the land stock, as well as the other stock in the corporation are, under F. H. A. regulations, strictly limited by the Administration. In order further to add to the safety of the loan, the Administration has required that, before even these limited returns are obtainable, reserves must be set aside for repairs and replacements, for working capital, and for one-half year's mortgage payments. Any amounts earned above these reserves and the authorized dividends must be paid to the mortgagee as additional amortization. In this way effective machinery is provided to prevent the project from being "milked" during the period that the insurance is in force, and to assure at all times the prior position of the mortgage indebtedness.

It should, therefore, be evident that the sponsors must not only limit and defer their profits, but must risk, first, the loss of return on their investment, then the loss of their investment in land, improvements, cash, and services if the project proves to be unsuccessful.

This description not only covers the Manhasset project, but is fairly typical of the operation I described yesterday under the general statement of policy.

There have been several other points brought up in connection with this particular deal that I would like to run through, just as a matter of clarifying the record.

The point has been raised that a dummy buyer was used in the original purchase of the land, not the persons who were the real parties in interest. That, of course, is a very customary practice in land acquisition. As Mr. McDonald pointed out, the newspaper that did most of the criticising used the same practice in buying its own land. It is also followed by the United States Government in purchasing land for housing projects, or post offices, etc.

The question has also been brought up of the figures given by the contractor in connection with the building permit, which were less than the actual figures of the contract. That, I must confess, is a

fairly customary practice in obtaining building permits, to show as low an amount as possible, because the cost of the permit is figured on the figures revealed; and it also has something to do, probably, with future tax assessments.

Mr. GIFFORD. Does he have to pay the full price of a permit as final costs of building is disclosed?

Mr. COLEAN. The figure that he gives the building inspector has nothing to do with the actual amount; that is, it may not conform to the actual contract figure.

Mr. GIFFORD. They stated the cost of this project to be $1,000,000; was it to save the cost of the permit?

Mr. COLEAN. Sometimes the local rules bear on the matter.

Mr. GIFFORD. If it finally costs $2,000,000, would he have to pay the difference?

Mr. COLEAN. I do not know, that depends somewhat on your local regulations; and the permit figure may not include the architects' fees and builder's fees. It is possible, also, it may not include the landscaping, and so on. Those things vary locally. There may be a perfectly legitimate reason why they might vary. At any rate, they are not indicative of the actual cost of everything that went into the project.

The question has been raised as to the unfitness of certain city inspectors for plumbing and electrical work. That, of course, is a matter that is beyond the control of the Federal Housing Administration, which is one of the reasons why we have our own inspectors on a job, at all times, to see that the work is satisfactory, as far as we are concerned.

The question has been raised as to the change in zoning. Naturally, a change of zoning would be required, if this was land that was, in its original state, zoned for single-family residential purposes. Our commitment was naturally contingent on the sponsors' being able to get the local authorities to approve this type of development.

Mr. GIFFORD. Did you read the account of how that zoning permit was granted?

Mr. COLEAN. I do not know the details, I do not know the circumstances under which the permit was granted, or the change made. We know that it came to us with the conditions fulfilled.

Mr. GIFFORD. We are all familiar with zoning troubles, as happens in any town, when it is attempted to change the existing conditions. But in this case, it seems that there were pretty sharp practices in the way it was handled.

Mr. COLEAN. That is a business that is not without sharp practices, but that has nothing whatever to do with our operations; and we stated we could not insure the loan, unless they had made their peace with the local authorities.

Mr. GIFFORD. Right there, Mr. Chairman, if you do not mind having this appear in the record. This is a letter to a Senator from Missouri, in which it is stated: "The village was constructed as a part of a growing development of fine homes, and will forever blight the area; it will reduce the value of properties in this highly restricted section." I simply put that in for whatever it may be worth.

Mr. COLEAN. I would like to speak of that point, if I may, for a moment, by referring to the four projects here in the Washington area, which are not dissimilar from this Manhasset Village, which

would convince any reasonable person that no detraction from value has taken place. In fact, we know the values have increased around those areas. That is well illustrated by the fact that the owner of the Buckingham project, right across the river here, just the other day, had to pay a price that figures well over $10,000 an acre for an additional tract which they wished to have.

The CHAIRMAN. Whom is the letter from?

Mr. GIFFORD. This is a letter to the Senator from Missouri.

The CHAIRMAN. Do you know anything about the man who wrote the letter?

Mr. GIFFORD. No. The letter is a well-written letter, sent to the Senator.

The CHAIRMAN. It is not very difficult to find somebody that has got a grievance and who will send letters in every mail about anything, but I am wondering about this individual, what his grievance is.

Mr. GIFFORD. It says here, "This is not a real-estate man's fight, in any sense of the word," but is from a general property owner. This letter was sent to his Senator, and I believe the committee may well consider it. I want you to refute this statement, also, if you can, in which he says:

> There is no immediate demand or a possibility of renting so many additional apartments in St. Louis County. There is an excess of 18 percent vacancy in that area. This statement is borne out, because there are less than 15 percent of the 354 apartments in the Manhasset unit rented, although the apartments have been ready for occupancy for several months. The management has resorted to concessions and every other known substitute, but still cannot rent them.

Mr. COLEAN. Before we entered into this proposition, we did make a careful study of the apartment situation in St. Louis, and come to the conclusion that new apartments in this rental bracket were needed. That was based on the best information we could get at the time.

Mr. GORE. Is there not a rental season in St. Louis?

Mr. COLEAN. Yes; I was going to get into that. There were 100 units finished, ready for occupancy, in this proposition sometime late in September, I believe. That was past the active rental season; and more than that, anyone coming into the project, into these finished units, had to pass through a great mass of construction on the others. That was unsatisfactory; and on top of that, the owners had to fight against the most vindictive type of opposition that could be raised locally, and I think that definitely hurt it as a rental proposition.

Mr. GIFFORD. Why should it have any such opposition, as Mr. McDonald explained yesterday?

Mr. COLEAN. It was partly due to this real-estate situation, and partly to whatever prompted the newspaper attack that followed, and I do not know which.

Mr. GIFFORD. It was not welcome in that vicinity, was it?

Mr. COLEAN. I cannot say. There was opposition from part of the owners in part of St. Louis, but I do not know that the position was local and confined to that area.

Mr. GIFFORD. Was this opposition that you noted from one newspaper, or from all of the newspapers?

Mr. COLEAN. Well, it has been principally one.

Mr. GIFFORD. More particularly one?

Mr. COLEAN. The others followed along, somewhat.

Mr. GIFFORD. They all seemed to be opposed to it, and demand an investigation. Usually one newspaper is not likely to follow another, if it can help it.

Mr. COLEAN. I think that has hurt the rental of it, but I feel that, with the coming of the new rental season, it will probably go over all right, because they have a great number of applications.

There is one other point I want to raise; that is in connection with the responsibility of developers, some question about which has been raised here, and I have a telegram from one of the large banks in St. Louis that I would like to put into the record here, if I may read it to you, Mr. Chairman. This is addressed to Mr. McDonald, and says:

> Please allow me to say a word with reference to Horace B. Deal about whom so much has been said recently in one of the St. Louis newspapers. Have known Deal intimately both personally and in business for the past 10 years and believe him to be meticulously honest, straightforward, capable, and worthy of every personal and business confidence. He stands well socially and his moral and business integrity are unquestioned by those who know him. Financially he and his firm rate well up in six figures and his credit standing is excellent. His associates, Carl Forline and Preston Bradshaw, are also well and favorably known to me and are relatively as worthy as Deal. After a personal detailed investigation I am of the unqualified opinion that Mr. Deal's conduct of the Manhasset Village project has been open and above board and I can see no sound or reasonable basis for the criticism which has been heaped upon him and the project by the few who have seen fit to criticize. You understand, of course, that neither the bank nor I have any personal or financial interest in the project and this telegram is prompted solely by my desire to prevent, if I can, an injustice being done a good man and splendid citizen. Best personal regards, I am
>
> Sincerely,
>
> JAMES K. VARDAMAN, JR.,
> *President, Tower Grove Bank & Trust Co.*

Mr. GIFFORD. Mr. Chairman, I would like to present here an article relating to "Deal Co. dictated defense letters." One subcontractor who declined to permit the use of his name, said "I am on the spot. They are good customers and I can't afford to lose their business." So, therefore, he signed the letter. He said, "I had to sign a prepared letter and mail it to the Deal Co. for them to use, and I would not have done that because I do not agree with the contents."

Mr. COLEAN. I do not know anything about that circumstance that you mentioned.

The CHAIRMAN. That is a rather unusual statement to come from anyone, to say the least.

Mr. GIFFORD. I simply wanted to have that appear. I want you to have a chance to weigh these matters for what they are worth.

The CHAIRMAN. Have you concluded?

Mr. GIFFORD. Yes.

Mr. WILLIAMS. I want to ask a few questions, not particularly about this one project, but the general policy. Am I correct—is it already in the record—that there are about 26 of these big projects?

Mr. COLEAN. There are more than that. The 26, I referred to, yesterday, were those that have been in operation for 6 months or more, but we have about 150 altogether. I have the exact figures here. As of March 1, there were 131 rental-housing projects that were either under construction or completed.

Mr. WILLIAMS. Under construction or completed?

Mr. COLEAN. That is correct.

Mr. WILLIAMS. Now, how much money has been allocated to those 131 projects?

Mr. COLEAN. I do not believe I understand you, Mr. Congressman.

Mr. WILLIAMS. How much insurance?

How many of those projects are completed? Can you give us that?

Mr. COLEAN. Yes; this statement shows, as of February 28, mortgages of $26,600,000 on 54 rental-housing projects completed and in operation as of that date. The total of the mortgages on all rental-housing projects completed and under construction as of February 28, is $76,000,000. The figure of $71,000,000 represents mortgage insurance as of January 31 on rental projects.

Mr. WILLIAMS. I do not quite understand yet your figures.

Mr. COLEAN. I am sorry. I realize that I confused you, to begin with. Let me start over again.

I will give you the correct figures. The total amount of premium-paying mortgages—that means on rental housing projects that are under construction or completed—as of February 28, 1939, is $76,703,750, which is about $5,000,000 different from the figure that I gave yesterday which represented mortgages as of January 31. Of that $76,000,000-odd, $26,599,250 represent mortgages on completed rental projects.

Mr. WILLIAMS. And in number, how many have you?

Mr. COLEAN. Fifty-four that are completed, and 77 under construction.

Mr. WILLIAMS. All right; now, in general, who has financed those big projects?

Mr. COLEAN. Principally the large life-insurance companies. The largest lender in this field has been the New York Life. Others include the National Life of Vermont, of which Mr. Bingham, the president, spoke to you here; the Prudential Life, the Union Central of Cincinnati, the Ohio National, and several others. The Travelers I think have made one, and the Northwestern Mutual has been fairly active, as well as some of the large savings banks in New York City.

Mr. WILLIAMS. They have all been large insurance companies or large banks?

Mr. COLEAN. In almost every case. We have two cases where groups of smaller banks split the mortgages among them and took the bond issues.

Mr. WILLIAMS. The reason I am asking that is because information has come to me that some of the small companies are engaged in this as a speculative proposition and financed one of these big enterprises and immediately afterward sold the bonds or mortgages.

Mr. COLEAN. Well, I do not know of very many transactions in this field. In the early stages, the Reconstruction Finance Mortgage Co. made several of the loans, and they have been purchased by private institutions, which, incidentally, paid premiums to the R. F. C. for them.

Mr. WILLIAMS. Do you know the extent to which the original financiers have held the mortgages?

Mr. COLEAN. I do not know the extent, but I judge from the type of institution that has been made most of these loans, they are not very widely transferred.

Mr. WILLIAMS. How many of these mortgages have been sold, what percent?

Mr. COLEAN. I do not know that figure. As I say, I know that four of them were made by the R. F. C., originally, and sold to private institutions; and there have been two or three loans in the New York area that were made by private banks that have been sold to the comptroller of the State, in which case the bank was really acting as his agent for handling the construction funds, and he made his own investigation. Beyond that, I do not know of any sales.

Mr. WILLIAMS. Have you not a record of the mortgages, not only under this section, but under section 203, which have been sold?

Mr. COLEAN. I could get that figure, but I do not have it here with me.

Mr. WILLIAMS. Do you think it has been as high as 25 percent of them?

Mr. COLEAN. Certainly not in volume, because a large percentage of them has been held by these institutions, who I know made them for their own investments.

Mr. WILLIAMS. If you could get that figure, I wish you would put it in the record.

Mr. COLEAN. I will be glad to see if I can.

Mr. WILLIAMS. I understood there were about 25 percent of them sold.

Mr. COLEAN. I doubt it, but I will get the real figures, if I can.

STATEMENT OF MR. COLEAN COVERING MORTGAGES INSURED UNDER SECTIONS 207 AND 210 WHICH HAVE BEEN TRANSFERRED AS OF FEBRUARY 28

Of the 131 rental-housing projects insured as of February 28 under sections 207 and 210, only three insured under section 207 and four insured under section 210 have been so transferred. The mortgages involved amounted to $2,628,000, or approximately 3 percent of the $77,000,000 in mortgages insured on this type of project as of that date.

In this connection, it should be noted that the Administrative Regulations (207, art. VI; 210, art. VI) specifically forbid the assignment of these mortgages except to a mortgagee approved by the Administrator as responsible and able to service the mortgage. It is required that the original mortgagor give the Administration notice of the transfer and that the transferee assume all the obligations under the contract of mortgage insurance.

It should be further noted that some of these transfers, particularly those under section 210, represent transactions where in the transferee was committed at the outset of the transaction to purchase the loan, and the transferor institutions, by prearrangement, merely acted for the eventual lender in disbursing the mortgage fund. In ordinary private mortgage lending this type of transaction is generally handled by a separate mortgage during the construction period with the permanent mortgage taken by the permanent lender. However, we require that the transaction in all cases take the form of a single combined construction and permanent mortgage. Institutions which are not organized to act during the construction period, therefore, arrange with some other lending institution to handle disbursements during this period upon an agreement by the permanent lender to take over the loan upon completion.

Mr. WILLIAMS. In financing one of these big projects, what form does the obligation take?

Mr. COLEAN. Ordinarily, it takes the form of a first mortgage or a first-mortgage bond.

Mr. WILLIAMS. It is a first mortgage?

Mr. COLEAN. That is right.

Mr. WILLIAMS. Now, what is the obligation that the mortgage is given to secure?

Mr. COLEAN. I do not believe I understand that.

Mr. WILLIAMS. You do not simply give a mortgage; there is always something back of the mortgage?

Mr. COLEAN. It covers the property of the project.

Mr. WILLIAMS. Of course, the property is there, but I mean the papers that are issued; are they notes, bonds, or what?

Mr. COLEAN. May I ask Mr. Colton, the counsel for the division?

Mr. COLTON. Generally, individual notes that are in the form required by the State law in which the project is situated. It is either a note secured by a mortgage, or a bond secured by a mortgage, a single instrument secured by the mortgage.

Mr. WILLIAMS. Is it a single instrument?

Mr. COLTON. In all, except, I think, three cases, they are single instruments.

Mr. WILLIAMS. For instance, take this one in St. Louis for $1,600,000, there is simply one note or bond, whichever you want to call it, secured by mortgage on the property?

Mr. COLTON. That is correct; one credit instrument secured by a mortgage. In two or three cases, I believe, in which three or four local institutions participated in the mortgage, the credit instrument was in the form of bonds, which were held by those institutions.

Mr. WILLIAMS. Then there is no way by which any part of them can be negotiated or transferred, without transferring them all?

Mr. COLTON. No, sir; no way at all.

Mr. GIFFORD. I would like to have appear right here this question: When mortgages are insured, how do they get the money for the construction?

Mr. COLEAN. I outlined that procedure yesterday. The money is paid out, ordinarily, monthly, on the basis of a predetermined schedule of payments based upon our inspectors' check of the amount of work done.

Mr. GIFFORD. In this case, did the New York Life Insurance Co. pay it out monthly?

Mr. COLEAN. That is correct.

Mr. GIFFORD. They do not have to pay the cost of financing the construction?

Mr. COLEAN. In some cases there is a charge for financing—our maximum fee is 1½ percent—but that is always covered outside of the construction contract and is included in those miscellaneous costs that I mentioned yesterday. But I would say that the competition for these loans has practically driven out any kind of charges of that sort, and recently they have been made without any charge.

Mr. MILLER. I have a few questions I would like to ask in connection with this matter of costs. My district is the insurance center and some of the companies are concerned about some of the stories that we hear. I would like to ask what assurance your department has that actual investments in the land and buildings that are insured are secured?

Mr. COLEAN. Well, we have every assurance that close examination and following the job can give, and certainly more assurance than

an insurance company would have in making a loan on its ordinary basis.

Mr. MILLER. I mean the actual investment, what assurance have you that the actual investment has been made?

Mr. COLEAN. We know that the man has his land free and clear before he comes to us. We have the estimates checked as carefully as we know how as to what the building is going to cost. We make him put up in the bank the cash required.

Mr. MILLER. In escrow?

Mr. COLEAN. That is what it amounts to.

Mr. MILLER. He cannot draw it out the next day?

Mr. COLEAN. He cannot draw it out, except with the approval of the Administrator. No money can be paid out of the loan except with the Administrator's approval, on his estimate on the amount of work done.

Mr. MILLER. These people that you loan money to, you take their responsibility, and as far as you know, they have not refused to pay their notes or previous obligations?

Mr. COLEAN. I think this telegram is pretty good evidence as to this group and the money paid out is, of course, not Government money.

Mr. MILLER. That is in St. Louis?

Mr. COLEAN. We endeavor to get a very close check on the responsibility of the people.

Mr. MILLER. I understand that one of the large participators in New York is the Bulova Co. of New York and that the company is a building concern; that Mr. Bulova has recently purchased a radio station and refused to carry out his obligations. With that in mind, in your opinion, would you consider him a man of good credit risk?

Mr. COLEAN. I have no reason to question the credit of the man referred to, as far as his ability to handle the development is concerned.

Mr. MILLER. Do you acknowledge that he welched on his previous obligation; would you consider that his rating was good?

Mr. COLEAN. Well, that would be something we would have to give consideration to, naturally.

Mr. MILLER. You would check into those facts?

Mr. COLEAN. We try to check it, if we can.

Mr. MILLER. Just one other question: I understand that your rule on these apartment properties is, that they shall not charge more than $16.50 per room, per month?

Mr. COLEAN. We have no definite policy, but I will say that our whole effort has been to get builders to develop projects in the lower rental brackets.

Mr. MILLER. In other words, you have no top limit?

Mr. COLEAN. We have, recently, informally stated to our New York office, which is the one I think you referred to——

Mr. MILLER. Yes, sir.

Mr. COLEAN (continuing). That from now on, we want them to stay out of anything higher than $16.50 a room, or approximately $66 a month.

Mr. MILLER. You would not get anything in the New York area where the white-collar people, so to speak, could rent a $16.50 room?

Mr. COLEAN. There are lots of small apartments there at lower prices.

Mr. MILLER. This Bulova project that I referred to, did it go to the top, or do you know?

Mr. COLEAN. Well, I think we appraised it about on the basis of $16 or $16.50.

Mr. MILLER. In the New York area, that is about the top you would like to go to?

Mr. COLEAN. That is right, from now on.

Mr. MILLER. Have you ever estimated the contingent liability, from the Government's standpoint, through the losses that may result from mortgages being insured at rate or values and the total costs of land and buildings?

Mr. COLEAN. In the first place——

Mr. MILLER (interposing). You do not think there is any contingent liability in that connection?

Mr. COLEAN. I do not think we have any outstanding insurance, where the value of the property is less than the amount we have figured, or in other words, that we have insured loans greater than the value of the property. I outlined yesterday the safeguards we have in that respect.

You see, in the first place, if foreclosure should take place, we have valuable property turned over to us, which in most cases we could rent for pretty close to 40 percent less than the appraised rentals, due to the fact that we only have to pay 2¾ percent on our debentures; we have 3 years longer to run; and we have wiped out all equity. So that, on that basis alone, it is hard for me to believe that, in the worst case, we would have to take a loss, that is, an actual cash loss on these projects. Of course, it might be possible.

Mr. MILLER. There would be no contingent liability, as far as the Government is concerned, then, really, about the mortgages issued and insured?

Mr. COLEAN. There is always a liability as long as there is a risk in anything, but as I say, I think we have ourselves pretty well covered.

Mr. MILLER. I do not see how you can estimate that, on the whole transaction.

Mr. COLEAN. I do not know that I entirely understand you. The only thing, as I say, is that we have tried to look at these things from every point of view, to cover our risks just as carefully as possible, first, on our estimate and appraisal; and, second, on our inspection; third, on our close watch of the management; and, fourth, on the whole general financial set-up, which gives us ample coverage.

Miss SUMNER. Mr. Chairman, I would like to ask a question, called to your attention this week: What kind of cushion have you to allow for a general real-estate depression there? As I understand it you have a mortgage for the value of the property, once it is set up. In what respect have you allowed for a general decrease in real-estate values?

Mr. COLEAN. Well, we have covered it in this way, or tried to cover it: In the first place, we have required in every case that the rental could drop 20 percent or more before default would occur. So that we have a cushion of at least 20 percent at the present time. We also have the additional safeguard in the fact that we are still far from the peak rental phase.

Miss SUMNER. You have 20 percent under your appraisal, then you also have your 10 percent on the down payment, or 20 percent?

Mr. COLEAN. These are 80-percent mortgages at the maximum. Our average mortgage, as a matter of fact, has been 76 percent of our valuations.

Miss SUMNER. Or a 40-percent cushion?

Mr. COLEAN. The protection is against the possibility of a 20-percent rental decrease, as a minimum before default.

Miss SUMNER. And 20 percent for your down payment?

Mr. COLEAN. That is right.

Mr. FORD. You have a 20-percent cushion on the value of the property, and a 20-percent cushion on the drop of rents?

Mr. COLEAN. Yes, sir.

Miss SUMNER. One more question: I have not read the 1934 law, but I would like to ask what is the philosophy back of it; is it for the purpose of creating employment purely, or is it for the purpose of eliminating our slum areas, or for the purpose of setting up yardsticks?

Mr. COLEAN. As I understand the purpose, it is to establish a sound and practicable means of producing housing for people who rent, parallelling, more or less, our plan for creating housing for persons who wish to own their own homes.

Miss SUMNER. Is it the purpose of the program then to expand all over the United States, in all of our larger cities?

Mr. COLEAN. We have now projects in about 34 States.

Miss SUMNER. Do you accept projects in each place?

Mr. COLEAN. We will take just as much of this type of housing as the market will support. In the city of Washington, we have a program that amounts, or will amount, by the end of this year to about 4,000 individual units. It happens that there is a very strong, very active rental market in this city. In St. Louis, apparently, 1,000 units is all that the town wants.

Miss SUMNER. Here is a question that occurred to me last night in reading about the English situation, where there was a strike on the part of the tenants in which they went into court and did not want to pay the rent. But the list of tenants—have you considered that from the political aspect?

Mr. COLEAN. Of course, these are not Government-managed projects. I suppose, if enough of the tenants should not pay their rent, the project would go into default and we would own it.

Miss SUMNER. The idea is similar, is it not?

Mr. COLEAN. I suppose it might be possible.

Mr. SIMPSON. Have you considered the political aspects and what you might do, in case this might happen here?

Mr. COLEAN. No; I have not given it any particular consideration.

Mr. FORD. They do not insure loans in England.

Mr. COLEAN. I think it is a remote possibility, but anything can happen.

Miss SUMNER. Another question, if you do not mind: What have you done in the way of small housing projects for the low-income groups in small communities, around 1,300 or 1,500 population?

Mr. COLEAN. Well, we have one project—these are all rental projects, of course, composed of single-family houses, in a very small city in Arkansas, which rent for about $20 a month. We have an-

other one in Meadville, Pa., where the rental for the houses is about $30 or $35.

Miss SUMNER. Is that your minimum rental?

Mr. COLEAN. That is the rentals that are charged on this particular development. We have one up in Massachusetts, where the rentals are as low as about $16 a month.

Miss SUMNER. Of course, you know, in the rural communities, all of the W. P. A. budgets comprehend not more than $10, or at most, $12, rent, do you not?

Mr. COLEAN. Yes.

Miss SUMNER. Such rental would not come within the range of the W. P. A. worker, would it?

Mr. COLEAN. That is quite true. We cannot cover everything that the U. S. H. A. would set up. You see, you have got on the one hand, the United States Housing Authority, whose job it is to handle housing for the underprivileged group; and F. H. A. projects necessarily must be limited to the group that can afford to pay an economic rent. We are encouraging the builders to build for as low an income group as possible, but naturally we cannot get down to the point of supplying housing with private capital for people who cannot afford to pay a rental to cover what it costs to build buildings.

Miss SUMNER. Then in that case your philosophy must be purely employment; is that it?

Mr. COLEAN. No, there is a lot of need for housing of this kind in this country for others than those that are on relief and in the very low-paid groups. Take here in the city of Washington, there was a tremendous amount of overcrowding of persons of all classes 3 or 4 years ago, and the projects that we have developed, or which have been developed through our agency, while not for the lowest income group in Washington, have filled a very serious need. They have all been filled up, which is evidence of that need.

Mr. FORD. Might I read the original bill or title? This is "a bill to improve Nation-wide housing standards, provide employment and stimulate industry, improve conditions with respect to home mortgage financing, prevent speculation in home mortgage investment," etc. That is the original bill.

Mr. WILLIAMS. Mr. Chairman, there is one other question I would like to ask: These sponsors are corporations, are they not?

Mr. COLEAN. Every project under section 207 must be owned by a limited dividend corporation, regulated by the Administration.

Mr. WILLIAMS. At what stage of the proceedings does this incorporation take place?

Mr. COLEAN. They must have their corporation all set up before the loan is closed and the insurance contract goes into force.

Mr. WILLIAMS. On what basis is the stock issued?

Mr. COLEAN. It is issued at the time of the forming of the corporation.

Mr. WILLIAMS. Well, what determines the amount and value of the stock that is issued?

Mr. COLEAN. Well, the stock can be issued without any par value, as far as we are concerned, under the regulations, but we value the stock for the specific purpose of determining how much they can take out in the form of dividends. They can actually set their stock up as no-par-value stock.

Mr. WILLIAMS. Well, the value of the capital stock of the corporation—we will put it that way—represents the difference between the mortgage and the appraised value?

Mr. COLEAN. That would be correct.

Mr. WILLIAMS. Is that it?

Mr. COLEAN. That is right.

Mr. WILLIAMS. Then, for instance, you take the one in St. Louis that we have been talking about here, and the capital stock of that concern would be $416,000?

Mr. COLEAN. That is correct.

Mr. WILLIAMS. That is the Manhasset project in St. Louis.

Mr. COLEAN. That is correct.

Mr. WILLIAMS. Now, that stock is issued, of course, to the different ones that have either paid their money in, or to whom a fee is due on account of services rendered, or on account of land that was furnished?

Mr. COLEAN. That is ordinarily the procedure.

Mr. FORD. Why not issue it to the corporation and let it say who is who?

Mr. COLEAN. Well, we do not control how they issue their stock.

Mr. WILLIAMS. They are the ones that have the investment in it?

Mr. COLEAN. That is right.

Mr. WILLIAMS. They are the ones that receive the stock when it is issued?

Mr. COLEAN. Ordinarily, that is true.

Mr. WILLIAMS. But, now, all of that arrangement is made before the money is advanced and before the insurance is issued?

Mr. COLEAN. Yes; that is correct.

Mr. WILLIAMS. In other words, the capital stock is all figured out in advance—I mean the amount of the stock?

Mr. COLEAN. Yes, sir.

Mr. WILLIAMS. That represents the difference between the appraised value which you put on the property, and the amount of mortgage that goes into it?

Mr. COLEAN. That is correct.

Mr. FORD. Let us take the St. Louis property, also, and after it was completed, it was appraised $2,016,000, was it?

Mr. COLEAN. Yes; that is right.

Mr. FORD. That is the total appraisal?

Mr. COLEAN. Yes; that is right.

Mr. FORD. $2,016,000? Then you add up these other things and they amount to $416,000. When was that stock issued to the corporation? Was it issued prior to the completion of the project, or upon the completion of the project?

Mr. COLEAN. It would be issued, ordinarily, at the start of the project, when the corporation is formed and the loan is closed. Now, in some cases, if the stock is being paid for services, it may not all be paid until those services are completed; but ordinarily, the whole corporate setup is completed at the time the loan is closed.

Mr. FORD. Would it be the obligation of the corporation, itself, to pay these individuals in stock, or would it be the obligation of the authority, the Administration?

Mr. COLEAN. It is the obligation of the corporation.

Mr. FORD. Well, now, I want to get this clear in my mind, if I can: When this Manhasset project was completed, it had a value of $2,016,000, and there is $1,600,000 loaned by the insurance company. The corporation that organized—the corporation that they organized or the stockholders—were then issued $416,000 for their equity?

Mr. COLEAN. That is correct.

Mr. FORD. Then the corporation distributed the $416,000 in accordance with whatever the individuals in the corporation were entitled to in their respective proportions?

Mr. COLEAN. That is correct, as I understand it. I believe that is correct.

Mr. FORD. But your institution had no control over where this stock went, after it was issued, after you issued it?

Mr. COLEAN. We did not actually issue the stock. You understand that?

Mr. FORD. You authorized it?

Mr. COLEAN. That is correct.

The CHAIRMAN. You did not care where it went?

Mr. COLEAN. No; they might sell it, if they wanted to, or assign it if they wanted to.

Mr. WILLIAMS. In the first place, in order to have a corporation, that is a matter of State law, is it not?

Mr. COLEAN. That is correct.

Mr. WILLIAMS. The secretary of state, or the corporation authority in the State that issues the charter——

Mr. COLEAN. It is a State corporation.

Mr. WILLIAMS. And under the law, they are required to submit the articles of the corporation, showing who the owners of the corporation are, and the amount of stock they own, and the offices and the records, and so forth?

Mr. COLEAN. Yes, sir.

Mr. WILLIAMS. And they also have to make representation to the State authority that issues the charter of the value or worth of the property that they are putting into the corporation?

Mr. COLEAN. That is correct.

Mr. WILLIAMS. That has to be approved by the State authority; that is right, is it not?

Mr. COLEAN. That is correct.

Mr. FORD. But the value of the equity is certified by the authority? You could not permit them to issue more stock than the value of the equity that you set on that property?

Mr. COLEAN. I would like to call on Mr. Colton on that point. The fact is, that we could limit it by the dividends.

Mr. COLTON. That is correct. We will set our values upon the stock and fix the amount of dividends, but we have no control over that stock after it is issued, whether they want to call it $1 par, or no par.

Mr. WILLIAMS. I mean the value. I do not care about the volume. You could have a million shares?

Mr. COLTON. That is right. We fix the value that we give to it for the purpose of limiting the dividends, that is a big factor in that situation.

The CHAIRMAN. The dividends are what you are interested in?

Mr. COLTON. Yes, sir.

Mr. WILLIAMS. And that is 6 percent?

Mr. COLTON. That is 6 percent on the valuation we have given to it.

Mr. GIFFORD. Suppose the stock is issued for $171,000 on the land and the architects' fees for $80,000, and the title costs and other outside expenses, which you are not interested in, for stock issued to these amounts and $120,000 actual cash is put in. You do not know where the cash came from, but it has been suggested that the $120,000 might be furnished by contractors and subcontractors who would get contracts. It does not make any difference as far as you are concerned. The stock may be issued to various people for various reasons, but what I cannot understand is, why all of the stock should be issued to the young ladies in these cases.

Mr. COLEAN. I do not know why they chose to assign the stock in the manner they did, but I do not see that there is any reason to believe that, whatever the cause may have been, the issuance of stock was not a legitimate one.

Mr. GIFFORD. Do you think the lawyer who searched the title was willing to take stock and let it be held by the young lady?

Mr. FORD. I suppose they had a gentleman's agreement.

Mr. GIFFORD. The whole thing seems like a gentleman's agreement.

Miss SUMNER. Mr. Chairman, is this our last day of evidence?

The CHAIRMAN. I am hoping so.

Miss SUMNER. May I ask one more question, then?

I notice in reading the hearings before the Senate, Mr. McDonald remarked that some of the new Members were very much confused and did not understand the bill very well, after he had talked it over; and the fact was, that it was not introduced in a way in which we could understand the historical background, and I wonder if, before you finish your testimony, you care to give us a short summary of the background of the bill?

Mr. COLEAN. I would like to have Mr. Ferguson do that, if that will be agreeable to you.

Mr. GIFFORD. Was that a solicited telegram about Mr. Deal?

Mr. COLEAN. Yes; this telegram was sent to Mr. McDonald, who got in touch with Mr. Vardaman, who is a friend of his in St. Louis, in whom he had confidence, and asked him for what his opinion of Mr. Deal was.

Mr. GIFFORD. Did he send one about Mr. Bradshaw and get a reply also?

Mr. COLEAN. This refers to Mr. Bradshaw.

Mr. GIFFORD. What is that?

Mr. COLEAN. This telegram refers also to Mr. Bradshaw.

Mr. GIFFORD. Did you read that telegram into the record?

Mr. COLEAN. Yes, and it says:

His associates, Carl Forline and Preston Bradshaw, are also well and favorably known to me and are relatively as worthy as Mr. Deal.

Mr. KEAN. Mr. McDonald stated yesterday that this section is the most difficult thing that he ever had to administer. Do you not think it is quite possible, at some future time, if this is administered by someone who is not quite as able as Mr. McDonald and yourself

have been, that heavy losses might result to the Government under this section, which involves such large sums of money and in which there is such a large temptation for people to attempt to get something out of the Government for nothing?

Mr. COLEAN. Well, I do not want to pin any flowers on us, or on our particular brand of administration; but we have tried to do the best job we knew how, and we have tried to establish certain principles in the matter of regulations and policy, and so forth, which would tend to prevent the abuses of the sort you mentioned. I do not think it is possible, in this type of thing, either by regulation or law, to legislate out the possibility of incompetence.

Mr. KEAN. Is this not a dangerous thing, from the Government's point of view, involving such large sums?

Mr. COLEAN. Personally, I feel that, with the type of control we have over it and the margins that we have to cover our risks, it is not any more dangerous than the other parts of this insurance activity. That is my own opinion.

Mr. KEAN. I thank you.

Mr. WILLIAMS. Now, Mr. McDonald, as I understood him, recommended that we take section 210 out of this bill. I think he discussed it rather fully. Are you in position to discuss the reasons why that ought to be done?

Mr. COLEAN. Well, the reason that prompted his statement was simply this. Under section 210 we are permitted to make mortgages on income properties up to $200,000 without any of these corporate controls or safeguards that we have under section 207.

Mr. WILLIAMS. In other words, anybody can own the projects under section 210?

Mr. COLEAN. Yes; it may be an individual or a corporation, and it does not have to be a special corporation set up for the purpose. We have no control over that; we have no control——

Mr. FORD. In other words, it permits speculation of the wildest character?

Mr. COLEAN. Well, it leaves the way open for it.

The CHAIRMAN. You do not have a limited-dividend provision?

Mr. COLEAN. That is correct.

Mr. WILLIAMS. Why not amend it in that way, then?

Mr. COLEAN. Well, if it were amended in that way, it would, it seems to me, probably be the same as taking it out, because, under section 207, we can and do frequently insure projects with mortgages under $200,000.

Mr. WILLIAMS. How low do you go? What is your lowest project?

Mr. COLEAN. Under 207, we have gone as low as $35,000.

Mr. FORD. What control do you have concerning those?

Mr. COLEAN. Well, we have the same control we have over the large ones, except we are able to write in a little simpler form.

Mr. BROWN. Why should you not put same safeguards around the individuals as you do corporations?

Mr. COLEAN. Unless you can separate these activities from his other activities, through separate books, accounts, and so forth, it is pretty difficult to do.

Mr. WILLIAMS. I do not see any reason—if you have gone as low as $50,000 under section 207—I cannot see any reason for having section 210 in it.

Mr. COLEAN. The reason it was put in last year was that, up to that time, we had very little under $200,000. Our average mortgage was something like $800,000, and today it is $500,000. It was felt that it was desirable to stimulate the building of smaller apartments in smaller communities, and that that section would help to do it.

Mr. WILLIAMS. What about the relative cost of administration on the small projects?

Mr. COLEAN. Well, of course, one objection to operating small projects under 207 is that it involves a certain amount of expense on the part of the sponsor to set up and manage the corporation; and, of course, it does involve a certain amount of expense on our part.

Mr. WILLIAMS. It would make it pretty expensive—it seems to me that it would—to operate a small project under section 207.

Mr. COLEAN. That is the reason for putting in section 210. Of course, from the point of view of our Administration, if we have a number of small projects in one community, the administrative expense is not so great.

Mr. GIFFORD. I would like, for my own personal satisfaction, to say that I wrote a bank once and asked it for a report on the Punderford Co., Inc., in New York City, the purchasing agent for three of the largest hotels in New York City. I had a very flattering report from the bank I wrote to relative to their soundness, honesty, and so forth. They failed within about 2 months, owing more than $200,000, and I lost $2,000 on my reliance on the bank's recommendation. I should be glad for the officers of that company to read this statement. You must forgive me for looking on some of these things with a little bit of doubt.

The CHAIRMAN. I suppose we have finished with Mr. Colean. We thank you, Mr. Colean.

Now, off the record.

(Here followed discussion off the record.)

(Thereupon the committee adjourned, subject to the call of the chairman.)

(The following were submitted for the record:)

THE AMERICAN BANKERS ASSOCIATION,
Washington, D. C., March 13, 1939.

Hon. HENRY B. STEAGALL,
Chairman, House Committee on Banking and Currency,
House of Representatives, Washington, D. C.

DEAR MR. STEGALL: The House Banking and Currency Committee has before it H. R. 3232, which proposes to amend title II of the National Housing Act.

The American Bankers Association has a membership of 13,600 banks out of approximately 15,000 banks in the United States and its possessions. Since the inauguration of the National Housing Act a large number of banks, members of the association, have qualified as approved mortgagees under the terms of the act and the regulations of the Federal Housing Administrator. Their participation in this program of the Federal Government has had a material and beneficial influence upon the economic stability of this country through encouraging home ownership and increasing opportunities for employment.

Under the terms of the above-mentioned bill certain powers now vested in the Federal Housing Administrator with respect to mortgage insurance under title II of the National Housing Act, which expire June 30, 1939, would be extended indefinitely and, in addition, the insurance authorization would be increased to $6,000,000,000.

137353—39——23

The American Bankers Association, through its committee on Federal legislation, desires to go on record on behalf of the membership and recommends to Congress that it authorize the continuation of the present power of the Federal Housing Administrator to insure mortgages on existing construction.

The association believes that under existing conditions of home-mortgage financing it would be against the public interest to permit the termination at this time of any of the present powers of the Administrator and that, with respect to the insurance of mortgages on existing construction, this power should be extended for a further limited period.

It is further believed that the aggregate amount of mortgage insurance authorized by Congress should be increased to an amount which will adequately meet the needs of home financing.

It is especially desirable that section 5 of the bill, adding a new paragraph to section 203 of title II be approved by Congress in order that the validity of any contract of insurance shall be incontestable.

Yours sincerely,

A. L. M. WIGGINS,
Chairman, Committee on Federal Legislation.

[Telegram]

CHICAGO, ILL., *February 23, 1939.*

HON. HENRY B. STEAGALL,
Senate Office Building, Washington, D. C.:

Need for early passage of F. H. A. amendments is urgent if spring and summer real-estate activity is to get under way, especially in the building field. We consider it essential that mortgage insurance on existing structures be retained if real-estate market is to be maintained. Elimination of insurance on existing structures would greatly hamper new building. We believe also in importance of retaining title I and in placing a six-billion-dollar ceiling on permissible mortgage insurance. We respectfully urge early action by your committee and by Congress on this matter.

HERBERT U. NELSON,
Executive Vice President, National Association of Real Estate Boards.

THE NATIONAL BANK OF OPELIKA,
Opelika, Ala., January 24, 1939.

HON. HENRY B. STEAGALL,
Member of Congress, Washington, D. C.

DEAR SIR: In reply to your letter of January 20, the following are our suggestions and experiences in connection with United States housing loans.

Our bank has been making title II loans regularly since October 1935, and at present are carrying $240,000 in this class of securities. We have not as yet had a foreclosure and are pleased to state that we have never handled loans of any nature that have proven more satisfactory from the standpoint of liquidation according to the terms of the contract.

In recent months banks making title II loans have been requiring title insurance, thereby avoiding the necessity and delay of having abstracts examined by legal departments of purchasers. This policy increases the liquidity or sale ability very materially in the event of demands for funds for other purposes.

Owing to the fact that title II loans are fully guaranteed, backed up by two Government purchasing agencies, to say nothing of sales to insurance companies and other corporations, it appears as though it is hardly possible for a bank to secure a safer and more liquid loan.

We know that in cooperating we are conducting a safe and sound banking program as well as assisting the second largest industry of our Nation. Therefore, we feel that institutions making loans of this nature should be permitted to keep their surplus so employed until they can be placed in loans of other channels of industry.

It appears as though it would be a good plan to assist cooperating institutions or banks by placing loans of this nature in some class other than real estate or raise the limits, which at present places a restriction of 60 percent of a bank's capital and surplus or savings deposits, whichever is the greater.

In the case of our bank, we are diligent in trying to care for every sound commercial and agricultural loan as well as sound loans of other natures presented to us by citizens of our trade area, and yet, if we are compelled to hold our loans herein referred to within the confines of present restrictions, our income will be reduced as much as $6,000 per annum. In addition to this, we will be placed in the position of carrying an excessive amount of idle or surplus funds, or forced into the bond market, purchasing securities of a less-attractive yield and a speculative nature.

You are acquainted with our section and doubtless know that a small minority of banks in a radius of 200 miles of us have seen fit to cooperate in this program; therefore, the demand on coperating institutions is almost unlimited.

In the event of an emergency the Federal Reserve bank will discount this paper for us from 80 to 100 percent, thereby furnishing a ready source for funds for almost any demand.

In view of the fact that this paper is fully guaranteed, it seems that it would be fair for it to carry the same discount rate as funds borrowed against 90-day commercial paper or Government bonds. It certainly is as liquid and possibly more so than the usual run of commercial loans.

It seems as though it might be a good plan to permit the use of these securities as security to Postal Savings and other Government deposits.

Our experience convinces us that the affairs of the Federal Housing Administration are being managed very efficiently, and it is a pleasure to us to be associated with what we consider one among the most beneficial Government agencies ever created.

Trusting this letter will be of some benefit to you in arriving at future legislation in this connection.

With all good wishes.

Sincerely yours,

J. H. MORGAN, *Vice President.*

SEARS, ROEBUCK & CO.,
Chicago, March 11, 1939.

HON. HENRY B. STEAGALL,
Chairman, House Committee on Banking and Currency,
Washington, D. C.

DEAR CONGRESSMAN STEAGALL: With reference to the hearings before your subcommittee on the pending amendments to the Federal Housing Administration, I am in entire accord with the proposed amendments to continue and extend its authority.

May I urge the enactment of such legislation?

Very truly yours,

R. E. WOOD,
Chairman of the Board.

WASHINGTON, D. C., *March 14, 1939.*

To the Honorable, Members of the Banking and Currency Committee, House of Representatives, Washington, D. C.:

We want to certify to your committee and the Members of Congress that this association is heartily in favor of the method of financing building construction conducted by the Federal Housing Administration under the National Housing Act. In the experience of our members, this type of Government service is essential in respect to general business recovery.

We consider that Federal Housing Administration financing should really be viewed as more than a recovery measure and should like to mention briefly certain of the merits of the Federal Housing Administration system that have come to our observation:

1. Federal Housing Administration has devoted extensive scientific study to the construction and economic problems involved and has developed new types and conditions of construction that are definitely superior to what was and is being done by unaided private operation.

2. As a consequence, Federal Housing Administration has created a new style of construction—its planning methods and established principles have been found so desirable as to have earned widespread approval and to be generally imitated.

3. Federal Housing Administration experts have shown that they know better what home planning is good for the public than the private builder knows—even that they know better what is good for the private builder than he himself knows what is good for his own interests.

4. Federal Housing Administration has greatly eliminated the undesirable type of speculative builder.

5. Lending institutions now largely prefer to lend in conjunction with Federal Housing Administration insurance rather than on an independent basis.

6. Federal Housing Administration is not operated in any degree as a spending agency—the administration being conducted by conservative mortgage experts well educated in the school of real-estate financing.

7. Federal Housing Administration has been the direct cause of producing much needed additional homes throughout the country at moderate cost.

8. Federal Housing Administration has produced large-scale developments with all of the attendant advantages of a unified and extensive development, including neighborhood center, playgrounds, and other advantages otherwise unobtainable except in large-scale operations.

9. The Federal Housing Administration system tends to eliminate second-mortgage financing with all its vices.

In view of all the foregoing, we consider that Federal Housing Administration is an agency of the Government, which in all respects has justified its existence, and we heartily recommend that it be enabled to continue its activities and that the pending amendments to the statute be speedily approved.

Respecfully submitted,

NATIONAL BUSINESS ASSOCIATES,
By HERMAN A. BAYERN, *President.*
JOSEPHUS C. TRIMBLE,
Vice President.

NEW YORK STATE BANKERS ASSOCIATION,
New York City, February 20, 1939.

Hon. HENRY B. STEAGALL,
Chairman, House Committee on Banking and Currency,
House of Representatives, Washington, D. C.

DEAR CHAIRMAN STEAGALL: The committee on legislation of the New York State Bankers Association is anxious to have H. R. 3232, containing the amendments to the National Housing Act, carry a further amendment so as to extend the present provisions of title I of the National House Act for the insurance of modernization loans from July 1, 1939, to July 1, 1941.

We know, of course, that you have concluded your hearings on this bill, but we should appreciate greatly your consideration of this proposed amendment by the committee in executive session.

The committee is of the opinion that the extension of title I for another 2 years would be extremely beneficial to the home owners of the country and would facilitate greatly the financing of repairs and renovations so necessary to preserve or improve the value of countless residential properties.

Your every courtesy in this matter will be appreciated.

Very truly yours,

PAUL G. REILLY,
Counsel to the Committee on Legislation of the New York State Bankers Association.

FORT WAYNE, IND., *February 28, 1939.*

Congressman H. H. STEAGALL,
Chairman, Banking and Currency Committee,
House of Representatives, Washington, D. C.:

We heartily favor continuation of Federal Housing Administration insurance of loans on existing construction. We do not believe that a market for new houses can be successfully maintained if the opportunity for adequate financing is withdrawn from existing homes. We are heartily in favor of the entire Federal Housing Administration program, having invested over $10,000,000 in these mortgages and can see no possible reason why the program is not equally sound for both new and existing construction.

WM. B. F. HALL,
Lincoln National Life Insurance Co.

THE JEMISON COMPANIES,
Birmingham, Ala., March 1, 1939.

Re Federal Housing Administration.

Hon. HENRY B. STEAGALL,
Washington, D. C.

DEAR STEAGALL: I respectfully urge and recommend your strong support of the proposed amendments to the National Housing Act which will continue Federal Housing Administration mortgage insurance on existing homes as well as on new construction.

In my opinion it will also be desirable to continue mortgage insurance under title I for repairs and construction of new homes up to $2,500 and to increase by $3,000,000,000 the amount of permissible mortgage insurance.

I believe it would be a very serious blow to the real-estate market if existing homes are denied the benefit of Federal Housing Administration mortgage insurance after July 1, 1939.

Very cordially yours,

ROBT. JEMISON, Jr.

CINCINNATI, OHIO, *February 28, 1939.*

Hon. HENRY B. STEAGALL,
Chairman, Banking and Currency Committee,
House of Representatives, Washington, D. C.:

This company has invested many millions in insured Federal Housing Administration mortgages of all kinds and is heartily in favor of the extension and expansion of the Housing Act. We feel that the extension of the provision relative to insurance on loans on existing property is of utmost importance in order that no person may be deprived of the privilege of purchasing existing property within their means under the privileges now afforded by the Housing Act. Elimination of this feature would adversely affect the real-estate market for existing properties.

GEORGE PANSIERA,
Treasurer, the Union Central Life Insurance Co., Cincinnati, Ohio.

MINNEAPOLIS, MINN., *February 18, 1939.*

SENATOR WM. B. BANKHEAD,
Chairman, Subcommittee, Banking and Currency.

The 600 members of the Mortgage Bankers Association of America are practically unanimous in favoring the amendments to the Federal Housing Act now under consideration by your committee and likewise favoring a further amendment with regard to farm loans to abolish requirement that 15 percent of the investment be spent in improvement of the buildings. Will you please read this to the committee and incorporate it in the record of your hearing on these amendments?

S. M. WATERS,
President, Mortgage Bankers Association of America.

THE PHOENIX INSURANCE CO.,
H. E. WILKINS CO., RESIDENT AGENT,
Bartlesville, Okla., March 8, 1939.

Hon. HENRY B. STEAGALL,
House Office Building, Washington, D. C.

DEAR SIR: In the regular meeting, today, of the Bartlesville Real Estate Board, the subject of discussion was: "The effect of F.H.A. upon the Value and Development of Real Estate in this Community." It was the opinion of all members present that it has been one of the greatest stimulating forces that could have been applied to real estate, both from the standpoint of development and the stabilizing of values.

Certain phases of the law will expire on July 1, and it is our opinion that if some action is not taken to reinstate these provisions, the owners of the older homes will sustain a very material loss and most of the old property will be-

come stagnant, therefore, we urgently request that you give serious consideration to:

(*a*) Continuing title insurance for the repair of old houses and construction of new houses up to $2,500.

(*b*) Continue mortgage insurance on existing construction.

(*c*) Increase the amount of permissible mortgage insurance to meet the anticipated needs.

We believe these are vital and should be continued.

Yours very truly,

BARTLESVILLE REAL ESTATE BOARD,
By H. E. WILKINS, *President.*

VIRGINIA STATE CHAMBER OF COMMERCE,
Richmond, March 6, 1939.

Hon. HENRY B. STEAGALL,
Chairman, Committee on Banking and Currency,
House Office Building, Washington, D. C.

MY DEAR MR. STEAGALL: We feel that the activities of the Federal Housing Administration have been among the most useful of Government institutions in recent years. Benefits from this program have filtered through the whole economic community, have helped to lift the building industry to a place of leadership in industrial activity and employment, and have helped add hundreds of thousands of new homes to the assets of the United States. But millions of additional homes need to be built—to replace old and obsolete houses, to provide housing to meet normal increases in our population.

In view of these facts, we feel that the Congress should act favorably upon the proposed amendments to the Federal Housing Administration law, which amendments are now before your committee for action. These amendments, namely, (*a*) to continue mortgage insurance on existing construction after July 1; (*b*) to continue title I provisions for repairs and construction of new homes up to $2,500; (*c*) to increase the total of permissible mortgage insurance from $3,000,000,000 to $6,000,000,000, appear eminently justified and demanded by the record of usefulness, by the success of the Federal Housing Administration program in the past and by the fact that to fail to enact these amendments the impetus that has been given the building industry by Federal Housing Administration stands in danger of being retarded seriously.

We trust that your committee will find it desirable, in consideration of the benefits that have accrued from the Federal Housing Administration law, to report favorably the amendments to it that will continue, extend, and enlarge its usefulness.

Very truly yours,

RAYMOND B. BOTTOM, *President.*

HOUSE CONCURRENT RESOLUTION No. 10 OF THE STATE OF KANSAS

By Mr. Kessler

A concurrent resolution memorializing Congress in regard to certain provisions of the "National Housing Act amendments of 1938."

Whereas Congress enacted in 1938 the so-called National Housing Act (H. R. 8730) amendments of 1938; and

Whereas subsection (*a*) of section 2 of the National Housing Act as amended in 1938 which relates to insurance against certain losses and which authority expires on July 1, 1939; and

Whereas, section 203 (*a*) limits mortgages to be insured after July 1, 1939, to (1) loans upon property not yet completed, (2) loans upon dwelling houses commenced since January 1, 1937, or (3) loans upon dwelling houses constructed prior to January 1, 1937, where such houses have previously been a security for an insured loan; and

Whereas section 203 b (3) provides that until July 1, 1939, the maturity of mortgage insurance is 20 years and after such date will be 25 years from the date of the insurance of the mortgage; and

Whereas, section 203 (*c*) relating to premium charges for insurance of mortgages expires on July 1, 1939; and

Whereas section 204 (*a*) relating to the payment of insurance expires on July 1, 1939: Now, therefore, be it

Resolved by the House of Representatives of the State of Kansas, the Senate concurring therein, That the Congress of the United States at its present sitting, be and the same is hereby urgently requested to enact such legislation, that will extend the provisions mentioned in the preamble to this resolution to those parts of the "National Housing Act amendments of 1938" (H. R. 8730) which expire; and be it further

Resolved, That this resolution be engrossed by the chief clerk of the house of representatives and the secretary of the senate and that copies thereof be transmitted by the secretary of state to the Senate and House of Representatives of the United States and to several members of said bodies representing this State therein, and to the President of the United States.

HEATH MOORE & CO.,
Kansas City, Mo., March 6, 1939.

Hon. HENRY B. STEAGALL,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.

DEAR SIR: I am taking the liberty of advising you of the approval of this company of House of Representatives bill No. 3232. We feel that the Federal Housing Administration program has been so substantial a factor in stimulating the construction business that it would be a misfortune to have any of its activities diminished.

Very truly yours,

HEATH MOORE.

THE REAL ESTATE ASSOCIATION OF THE STATE OF NEW YORK,
Albany, N. Y., February 28, 1939.

Hon. HENRY B. STEAGALL,
Chairman, House Committee on Banking and Currency,
Washington, D. C.

DEAR MR. STEAGALL: The Federal Housing Administration has had a tremendous influence in revitalizing the real-estate-construction industry. Real-estate conditions are such that the stimulating effect of the Federal Housing Administration is still definitely needed.

We understand that the $3,000,000,000 of permissible mortgage insurance authorized under the present law is almost exhausted. We emphatically urge that an additional $3,000,000,000 be authorized. If an additional amount of insurance is not authorized, the ceiling will soon be reached resulting in drastic curtailment of new residential construction, which is universally recognized to be both needed and desired.

We have previously written you urging approval to the amendments to the Federal Housing Authority which will continue mortgage insurance on existing construction after July 1, and to continue title I for repairs and construction of new homes up to $2,500. We again urge favorable consideration of these amendments and feel that you will agree that real-estate conditions have not sufficiently improved to justify a lapse of these provisions.

Sincerely yours,

RAY HOFFORD,
Executive Vice President.

RESOLUTION PASSED AT THE TWENTY-SECOND ANNUAL CONVENTION, NEW JERSEY ASSOCIATION OF REAL ESTATE BOARDS, DECEMBER 10, 1938, HOTEL TRAYMORE, ATLANTIC CITY, N. J.

NEW JERSEY ASSOCIATION OF REAL ESTATE BOARDS,
Newark, N. J.

Whereas the National Housing Act has been of great benefit to the welfare of the Nation and to the real-estate business by encouraging home ownership and by stimulating the building of new homes;

Whereas it is our desire to see this constructive legislation continued and strengthened as a matter of sound public policy: Therefore be it

Resolved, That we urge the officials of the Federal Housing Administration and the Members of Congress, to give favorable consideration to the modification of the National Housing Act so as to make possible after July 1, 1939, the granting of insurance of mortgages on existing dwellings on the same basis as on new dwellings, so that sound properties built previous to January 1, 1937, will not be compelled to enter the real-estate market at a marked disadvantage; and that we urge the continuation of both the 25-year amortization and one-fourth of 1 percent mortgage insurance premium on loans not exceeding $5,400, in order to continue the excellent results obtained thus far in stimulating home ownership; and be it further

Resolved, That we urge the officials of the Federal Housing Administration and the Members of Congress, to continue the provisions of the section known as title I of the National Housing Act with respect to (*a*) loans not in excess of $10,000 outstanding per single piece of property, to repair, alter, or improve, existing structures, and (*b*) loans not in excess of $2,500 per single piece of property, to erect new structures.

[SEAL]

Attest:

A. N. LOCKWOOD, *President*,

EDOUINA GANO, *Executive Secretary*.

ATLANTA REAL ESTATE BOARD,
Atlanta, Ga., February 28, 1939.

Hon. HENRY B. STEAGALL,
Chairman, House Banking and Currency Committee,
House Office Building, Washington, D. C.

DEAR MR. STEAGALL: It is our understanding that the amendments to Federal Housing Administration, which will continue mortgage insurance on existing construction after July 1; continue title I for repairs and construction of new homes up to $2,500; and increase the amount of permissible mortgage insurance from three millions to six millions, are now pending in the House and Senate Committees on Banking and Currency.

As a member of the Banking and Currency Committee, may we urge your valuable cooperation in this matter. It is the belief of realtors, not only in Atlanta, but all over the United States, that it would be greatly detrimental to the real-estate market generally if existing homes could not obtain the benefit of Federal Housing Administration mortgage insurance. This mortgage insurance has, in the past several years, been a lifesaving stimulant to the realty market, and to do away with it now would greatly retard the present upward trend of real-estate activities.

We urgently request your serious consideration of these amendments, and respectfully solicit your aid in bringing about immediate favorable action.

Respectfully yours,

ATLANTA REAL ESTATE BOARD,
By W. J. HOGAN, JR., *President*.

[Telegrams]

SALT LAKE CITY, UTAH, *January 21, 1939.*

THE CHAIRMAN OF THE HOUSE BANKING AND CURRENCY COMMITTEE:

If Federal Housing Administration provisions expiring July 1, 1939, are not extended to include property constructed prior to January 1, 1937, serious consequences will result to the real-estate market and to business in general. Stagnation of the sale of properties constructed prior to January 1, 1937, will result. Overbuilding of new residences would occur, creating an oversupply of residential rental properties, making serious inroads into the occupancy of all rental properties. We urge your influence to the end that Federal Housing Administration mortgage and insurance provisions will be extended to July 1, 1941.

SALT LAKE CITY CHAMBER OF COMMERCE.

CHICAGO, ILL., *January 16, 1939.*

Congressman HENRY B. STEAGALL,
Chairman of House Banking and Currency Committee,
Washington, D. C.

The officers and directors of the Illinois State Association of Real Estate Boards, composed of 39 local boards, representing the important communities of Illinois, being mindful of the very great benefit that Federal Housing Administration financing has been to the home owners and home buyers of the Nation, also to business in general, hereby respectfully petition and strongly urge that you sponsor legislation which will extend present mortgage insurance provisions expiring July 1, 1939.

GEORGE SCHNEIDER, JR.,
President.
MRS. W. H. WRIGHT,
Business Manager.

NORTH PHILADELPHIA REALTY BOARD,
Philadelphia, Pa., March 8, 1939.

Congressman HENRY B. STEAGALL,
Chairman, House Committee on Banking and Currency,
Washington, D. C.

DEAR CONGRESSMAN STEAGALL: At a regular members' meeting of the North Philadelphia Realty Board, the matter of extending title 2 of the Federal Housing Administration Act after the expiration date of July 1, 1939, was discussed and considered.

It was the consensus of opinion at this meeting that no extension be granted to title 2 of the Federal Housing Administration Act; and furthermore, a resolution was passed, a copy of which we enclose herewith, asking for the repeal of title 2 of the Federal Housing Administration Act in its entirety.

We remain,

Very truly yours,

NORTH PHILADELPHIA REALTY BOARD,
J. WARD MOFFETT, *Executive Secretary.*

RESOLUTION

Whereas, in accordance with the provisions of the Federal Housing Administration Act, that title 2 will be discontinued as of July 1, 1939; and

Whereas title 2 of the Federal Housing Administration Act is in direct competition to the real-estate profession: Be it

Resolved, That the members of the North Philadelphia Realty Board do hereby go on record against continuing title 2 after July 1, 1939, and recommend the repeal of title 2 of the Federal Housing Administration Act in its entirety.

NORTH PHILADELPHIA REALTY BOARD [SEAL],
HERMAN C. IDLER, *President*,
FREDERICK J. BOHRER, *Secretary*.

MIAMI BEACH, FLA., *March 2, 1939.*

THE BANKING AND CURRENCY COMMITTEE,
House of Representatives:

Strongly object to provision in H. R. 3232 extending Federal Housing Administration insurance existing construction and refinancing for the following reasons: First, there is now as much evidence of overextension as there was scarcity of mortgage money, which was the only justification for Federal Housing Administration insurance on existing construction at time Federal Housing Administration was created. Second, in our community approved mortgagees are already writing letters to home owners endeavoring to sell them idea of mortgaging their home and further endeavoring to raid mortgage portfolios held by savings and loan associations, suggesting that they can get for the mortgagor a larger loan than he already has, the most active mortgagee in this work being one which makes its commission and immediately sells to Federal National Mortgage Association without recourse, thereby using Government credit at cross purposes and to the detriment of other governmental instrumentalities which are not calling on the Government for additional credit. Surely there is nothing constructive in inducing home owners to mortgage their homes or increase an existing mortgage when the owner has expressed no need for it. Third, if

under the present $3,000,000,000 limitation they are already finding it necessary to use high-pressure methods, what may we expect if the date line as to existing construction and refinancing is eliminated and the limit raised to $6,000,000,000? Federal Housing Administration as to new construction is doing constructive work, and we are glad to cooperate.

FRANK CHASE,
Member, Federal Housing Administration Savings and Loan Advisory Council and President, Chase Federal Savings and Loan Association.

NEWARK, N. J., *March 1, 1939.*

The House Banking and Currency Committee:

I strongly protest against extending Federal Housing Administration insurance on existing construction and for refinancing purposes as provided in H. R. 3232. Such extension is unnecessary and will work to the detriment of present home-financing institutions.

GEORGE M. COOPER,
Member, Federal Housing Administration Savings and Loan Advisory Council.

[Telegram]

ANN ARBOR, MICH., *March 1, 1939.*

HOUSE BANKING AND CURRENCY COMMITTEE,
Washington, D. C.:

Wish to protest extension of F. H. A. insurance on existing construction and refinancing as provided in H. R. 3232. This is contrary to the intention of the President and F. H. A. Administrator as previously expressed before Congress and your committee. Such action would continue the Government in competition with local thrift and home-financing institutions of our country.

WILLIAM C. WALZ,
Federal Housing Administration Savings and Loan Advisory Council.

MISSOURI STATE LEAGUE OF
BUILDING AND LOAN ASSOCIATIONS,
Kansas City, Mo., March 7, 1939.

Hon. HENRY B. STEAGALL,
Chairman, House Banking and Currency Committee,
House Office Building, Washington, D. C.

DEAR MR. STEAGALL: Missouri's 221 mutual thrift and home-financing institutions, having a total membership of over 168,000, are so vitally affected by the proposed legislation amending title II of the Federal Housing Act, that we are addressing you in a plea for assistance.

Briefly, we desire to record our opposition to section 2 of H. R. 3232 and S. 1097, making it the permanent policy of the Government to insure mortgages on existing properties, and to section 3, enabling any individual, broker, dealer, or developer to originate Federal Housing Administrtion mortgage paper.

Our community institutions are being hampered and hurt by foreign lenders and direct Government purchases of Federal Housing Administration insured mortgages. The termination on July 1, 1939, of the activities of the Federal Housing Administration in insuring mortgages on existing construction, as the statute now provides, will encourage and strengthen every such institution in this State.

Continued insurance of refinancing loans means home mortgages will be taken from local institutions and placed in the hands of distant investors who would have no interest whatever in working out community home-ownership problems, if another crisis should occur. It means foreclosure under arbitrary rules as contrasted with the policy of helping the home owner in distress to work out his difficulties that has been practiced by savings, building and loan associations.

These associations are local, community enterprises, organized and operated to promote thrift an home ownership. They lend practically every dollar invested in them on home mortgages under a plan regarded as being equally in the borrower's interest. Continuation of refinancing home mortgages means continued raiding of their portfolios and the fostering of activities injurious to them without accompanying public benefit.

It has been argued that it is sound public policy for the Government to assume substantial risks by underwriting mortgages on new construction since the stimulation of home building increases employment in the building trades and the sale of building materials. No such reason can be advanced in support of loans on homes already built.

There is ground for uneasiness, if not alarm, in that mortgages are being made and sold to the Government which private lenders know from experience are neither safe risks for savings funds nor proper obligations for the borrowers themselves. The whole real-estate field is being endangered by activities tending to bring a return of the conditions that caused the real-estate collapse of the late 1920's, notably excessive loans and too small equities.

Section 3 provides that mortgages may be originated by brokers and others who are not approved mortgagees, and may be insured by assignment to an approved mortgagee. This throws the field wide open to the individual, the speculative builder, or shoestring operator, who cannot qualify.

Will encouragement be given community institutions, such as savings banks, building and loan associations, and the like, or shall mortgages be made by individuals, builders, or developers, regardless of their financial strength and responsibility, and sold to the Government?

The system of cooperative community institutions, reinvesting local savings and capital in the community, best stood the test of the recent depression in Missouri, has a long and honorable record of service, and should be continued. Section 3 casts utterly aside the concept of community and institutional responsibility for the conduct of home financing activities.

On behalf of the saving, investing, and borrowing members of Missouri's mutual thrift and home financing institutions, we appeal to you to oppose this measure, since it is detrimental to them, is not in the public interest, and therefore we feel it has no claim to your support.

Yours sincerely,

WM. P. SAYRE,
Secretary-Treasurer, Kansas City.

[Telegram]

BERKELEY, CALIF., *March 12, 1939.*

Congressman STEAGALL,
Chairman, House Banking and Currency Committee,
Washington, D. C.:

The President of the United States, in his message to Congress of November 1937, and Federal Housing Administrator Stewart MacDonald have gone on record as desiring to discontinue that phase of the Federal House Administration making the insuring of refinancing loans a matter of permanent policy. An extension of this Federal Housing Administration feature therefore is contrary to the stated intention of the President and of the Federal Housing Administration itself the last time it requested further aid from Congress.

Furthermore, the real-estate depression from which we are just recovering now was brought about by too much credit being extended on real-estate purchases. It is our opinion that 80- and 90-percent loans on existing real estate on an F. H. A. basis will bring about another reaction with ultimate loss to taxpayers. In conformity with the above and the established fact that ample funds are available for refinancing purposes through banks, building and loan associations, and insurance companies on their own liberal loan plans, we urge the extension of the refinancing feature of the Federal Housing Administration be discontinued.

BERKELEY GUARANTEE BUILDING & LOAN ASSOCIATION.

[Telegram]

ST. LOUIS, MO., *January 25, 1939.*

Hon. HENRY B. STEAGALL,
Senate Office Building, Washington, D. C.:

St. Louis Real Estate Board, comprising 290 members, firmly opposed to pending legislation extending certain phases of the Federal Housing Administration for reasons contained in letter to follow.

ST. LOUIS REAL ESTATE EXCHANGE.

[Telegram]

HON. HENRY B. STEAGALL, BIRMINGHAM, ALA., *March 6, 1939.*
House Office Building, Washington, D. C.:

After carefully considering the content of H. R. 3232, I fail to see where the home owner would be materially benefitted by the extension of Federal Housing Administration insurance on existing properties. The continuance of this insurance on existing properties will prove a serious handicap to local thrift institutions and in many cases these refinanced mortgages are sold to out-of-State investors. I urge that you limit Federal Housing Administration insurance to the field for which it was originally intended—that of new construction.

F. M. JACKSON.

JEFFERSON FEDERAL SAVINGS & LOAN ASSOCIATION,
Birmingham, Ala., March 8, 1939.

HON. HENRY B. STEAGALL,
House Office Building, Washington, D. C.

DEAR HENRY: My wire to you on the 6th urged that you limit the Federal Housing Administration insurance to mortgages to the field of new construction.

My reason for this request is that I am convinced that the insurance of existing mortgages certainly does not tend to encourage or strengthen private business in any way but results in many of the best mortgages held by these private thrift institutions being taken over by one of the mortgage brokers and in most cases sold to some outside interest. The broker's sole interest in the matter is the money he can make out of the expenses of the transaction; the borrower does not know that his mortgage may shortly be owned by some outside interest to whom he can have no appeal in case of temporary adversity.

I raise no objection to the continuance of the Federal Housing Administration insurance on mortgages for new construction, as it is imminently sounder to subsidize employment than to continue so much relief for unemployment, though, after all, most of the benefit of the plan is going to the seller of the materials used; there has been no reduction of the cost of the construction of these new houses, and in many cases mortgages are insured for an amount in excess of the construction cost.

As to the governmentally subsidized housing, only time can tell just what will be the ultimate effect on the communities and the occupants themselves. Many of these people will be citizens who ought to live in a home of their own and have an active interest in their communities and the cost of its government, while so long as they occupy quarters which are to some extent paid for by the public they also are benefiting from use of schools and other things at the cost of other taxpayers. The Cahaba Village project, in our own immediate community, is a shining example; only half occupied up to this time, no sale price or terms yet fixed, and the cost of living there more than similar quarters in the city without the cost of transportation to place of employment. A terrific loss of public funds in this and similar projects is inevitable.

Again, I urge that the Federal Housing Administration insurance on existing construction be terminated in accordance with the present law.

Yours very truly,

F. M. JACKSON, *President.*

HON. HENRY B. STEAGALL, BIRMINGHAM, ALA., *March 3, 1939.*
House Office Building, Washington, D. C.:

At a meeting today of Alabama Building and Loan League and many of the mortgage-loan companies who are directly in competition with Federal Housing Administration in making small monthly loans to home owners on existing construction it was definitely decided to urge that you eliminate from your bill this particular field, with the understanding that only loans on new construction in the future be insured by Federal Housing Administration. We urge that the act be not amended in such a way as to extend the time to July 1, 1939, giving the Federal Housing Administration the right to insurance loans upon existing construction. This in line with the President's ideas as conveyed to the Congress in November 1937 and the Administrator of the Federal Housing Administration about the same time. There are ample idle funds in all communities to more than take care of any applications on existing construction at an expense not in excess of Federal Housing Administration charges and in many cases much less, and the interest rates are comparable to those charged under Federal Housing Administration plan. You will realize that at the same cost and the same interest rate all applications will go to Federal Housing Administration, as many people believe that their entire loans will be ultimately canceled by some act of Congress. Many of our existing mortgages are being refinanced under the Federal Housing Administration plan by brokers at no savings to the borrowers. And the refinanced mortgages sold to out-of-State insurance companies and other eastern investors. Thus you can see that we are not only surrendering our present mortgages, but if this condition continues we will be excluded from future loans on existing construction and, therefore, be put out of business.

E. W. SAUCIER,
Chairman, Executive Committee.

DENVER, COLO., *January 17, 1939.*

Congressman HENRY B. STEAGALL,
Chairman of House Banking and Currency Committee:

Whereas it has been called to our attention that the authority of the Federal Housing Administration to make new loans, will, under the present act, expire July 1, 1939; and

Whereas considerable pressure is being exerted in certain quarters for a further extension of said act: Now, therefore, be it

Resolved by the board of directors of the Colorado Association of Real Estate Boards, That we are opposed to any further extension of said act, either pertaining to new construction or to existing structures. It is our belief that private funds are available in more than sufficient quantity to meet all requirements and that these private funds are not only available but are anxious for an opportunity to be put to work. We believe recovery will be greatly promoted by the withdrawal of the Government and its various agencies from this field. We believe that the continuance of this governmental agency in the loan business will have a permanent injurious effect upon the real-estate business. The continuance of Federal Housing Act loans on existing structures is particularly unnecessary and hurtful to the loan- and real-estate business and cannot be said in any sense to promote the construction business. We feel that this field should without question be left to private capital.

PAUL D. AMBROSE,
Secretary, Colorado Association of Real Estate Boards.

NEW YORK, N. Y.

HON. HENRY B. STEAGALL,
Member, United States Congress,
Office Building, Washington, D. C.:

Understand amendment being considered to title I, National Housing Act, to require payment of an insurance premium by insured financial institutions without any compensating provision permitting increased service charge. Based on our Nation-wide experience handling a large volume of this type of business, we believe this would tend to restrict extension of modernization credits where most needed; namely, for lower-income borrowers requiring credit for repairs and improvements costing in neighborhood of from $100 to $200 and financed for periods up to 3 years, because it costs as much to handle a small transaction as a large one. These smaller transactions are presently unprofitable but nevertheless are financed as part of a rounded service which comprehends a compensation volume of larger transactions. If present statutory service charge is in effect reduced by the amount of a required insurance premium, the residue of the service charge will afford institutions less latitude for financing the smaller accounts and, as to larger items, for rendering as comprehensive credit and collection effort as under present provisions before filing claims against the Government. This will result in accelerating the filing or otherwise avoidable claims and increasing F. H. A. operating expenses, claim payments, and losses by the Government in final liquidation. Compensation for such results, in our judgment, cannot possibly be offset by revenues from premium payments.

The Government as insurer is interested in restricting losses and operating expenses and we sympathize with this view. As a constructive suggestion, we would advocate reducing insurance coverage from 10 to 7 percent. Based on our experience we believe such a reduction of Government insurance coverage will not restrict extension of credits but will result in more effective collection efforts by insured institutions with resulting saving in F. H. A. operating costs

and losses. This we believe would be more effective in lessening cost of salvaging claims and minimizing final loss experience of the Government than the requiring of a premium payment.

A. O. DIETZ,
President, Commercial Investment Trust, Inc.

MERCHANTS BANK,
Kansas City, Mo., March 6, 1939.

Hon. HENRY B. STEAGALL,
Chairman, Committee on Banking and Currency,
House of Representatives Office Building, Washington, D. C.

MY DEAR MR. STEAGALL: We, as an approved mortgagee of the Federal Housing Administration, are very much opposed to the contemplated amendments to the National Housing Act, known as House bill 3232.

Yours very truly,

HAL R. LEBRECHT, *President.*

THE FEDERAL SAVINGS AND LOAN INSTITUTE OF CALIFORNIA,
Los Angeles, Calif., March 18, 1939.

Hon. HENRY B. STEAGALL,
House of Representatives, Washington, D. C.

DEAR SIR: A national scandal is in the making in connection with home finances in southern California. Title I financing of new construction in this area has brought about a condition which is detrimental not only to real estate but to the home construction industry to the extent that values are being undermined, and a very decided recession in building acivity has been noted for some time.

Under present conditions these loans for the construction of homes are being granted with such loose qualifications that it has now become a racket of the first order in this district.

We respectfully request that an investigation by the Federal Bureau of Investigation be made, which will uncover violations of both the spirit and letter of the Federal Housing Act, that the credit statements on which many of these loans have been made would not justify the extension of the amount of credit to the borrowers, because of their low income and therefore their inability to make such high payments over the limited period of time. Under the guidance of the Federal Housing Administration certain definite rules have been set out for credit in connection with title II financing. These rules have been not only ignored but absolutely thrown overboard in granting of loans for title I construction.

Collusion between owners and contractors has resulted in the building of these homes in areas in which substantial homes have heretofore been constructed, with the result that there is a depreciation of the improvements which were made in good faith. No distinction has been made as to areas in which this type of financing is allowed, so that a wide area is affected. So far-reaching has this been that even the better residential districts of southern California are feeling the effect. The type of workmanship and the general conduct of this type of business is such that it puts to shame the old-time jerry-builder of many years ago.

Many of these homes have been constructed on lots with an absolute violation of the deed restrictions, construction requirements of the Federal Housing Administration, and all the rules of decency as regards community development.

Protests have been made by property owners in North Hollywood, and in other communities, and the attached article in the Burbank Review states the situation in a very clear manner.

During the past month talks have been given before the North Hollywood and Glendale real-estate bodies by representatives of the Federal Housing Administration, which not only condone, but encourage this type of financing and construction. Further investigation will reveal the fact that many of the angles which are now being worked were introduced by them.

When credit institutions lend, with the full knowledge at the time of lending, that they impair the ability of the borrower to repay, it is a dangerous situation; but it becomes far more dangerous when we find credit institutions apparently working in harmony with the Federal Housing Administration, a Government-designed body with the ostensible purpose of protecting a man's ability to repay.

That is precisely what is happening in the perversion of the intent and purpose of title I of the Federal Housing Act. Obviously, the homes constructed under this provision appeal only to those in the low income brackets, and we find the untenable condition forced upon the borrower of the shortest possible term of payment to subsequently liquidate his indebtedness when this type of borrower should have the benefit of the most extended terms.

We, therefore, charge that the Federal Housing Administration, in opening title I to new construction, has perverted its original purpose, impairs by its very terms the ability of the borrower to repay, and therefore works in concert in a vicious cycle which must end in a national scandal.

Title I as now used in connection with new construction is destructive of values, encourages improper construction, destroys potential home owners, and should be immediately withdrawn from public use.

We find desirable residential districts being blighted through its improper use. We find credit institutions making house-to-house solicitations to further advance this vicious type of lending.

We find that lack of proper inspection is permitting the construction of houses that cannot possibly fulfil their purposes, with the resultant loss to those who are least able to sustain it, as well as loss to the credit institution and to the Federal Government.

The Federal Savings and Loan Institute of California comprises 37 institutions operating under Federal charter, and it is the desire of each to pursue a sound course of lending that will reflect credit on their Federal charter and upon the institution itself. Most of the members are making title II Federal Housing loans, and few, if any, will permit themselves to be drawn into a vortex that is certain to be destructive to all of the values surrounding the otriginal purposes of Federal Housing Administration.

We request your immediate action in a full and complete investigation of the improper purposes to which title I is being applied.

Yours truly,

C. R. LIVINGOOD, *Secretary.*

RESOLUTION

Whereas certain provisions of the National Housing Administration Act, as amended, namely, section 2 of said act, providing for insurance of the so-called modernization loans expires July 1, 1939; and

Whereas section 203–A of said act limits the national mortgage insurance after July 1, 1939, to mortgages secured by new homes and property previously covered by insured mortgage; and

Whereas section 203–B–3 limits the 25-year loan to loans made prior to July 1, 1939; and

Whereas it is the feeling of the league here assembled that the national credit should not be used to underwrite private enterprise except in case of a national emergency and that a national emergency does not exist with reference to section 2 of said act; and

Whereas it is the opinion of the group here assembled that never in the history of the country has there been as large an amount of funds available for the investment in home mortgages as there exists today, and it is further the opinion that the home-mortgage institutions of this country can adequately finance any building program that is necessary to meet the housing needs of the country today; and

Whereas said National Housing Administration was created for the purpose of creating employment in the building trades, and that the refinancing of the existing mortgages in no way creates employment in the building trades nor in any way assists in the major objectives of the National Housing Administration; and

Whereas the refinancing of existing mortgages creates an incentive for mortgage brokers to solicit the mortgages held by associations, and refinance same, making a refinancing profit in the transaction but in no way benefiting the borrower; and

Whereas it is the opinion of the group here assembled that it is to the best interests of the home-financing business of this country and the home owners, and last but not least, the Government, that the Federal Government should no longer extend its credit in the refinancing of mortgages on existing mortgages; and

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Whereas it is the opinion of this group that after July 1, 1939, that the National Housing Act be restricted to the insurance of new homes and property previously covered by insurance mortgage; and

Whereas it is the judgment of the group here assembled that the experience of over 100 years in the home-financing industry has led the leaders of said industry to recommend that loans should not be made having maturities of greater than 15 years, and further that the practice of making 25-year loans is unsound and that it is unjust to the borrower in that it encourages him to purchase a home that he cannot afford to pay for or to live in, and that it is unsound from the mortgage-lending standpoint, for the reason that the reduction of principal during the first few years of the loan is less than the depreciation of said property: Now, therefore, be it

Resolved by the Thirty-second Annual Convention of the Colorado State Building and Loan League in convention assembled at Colorado Springs, Colo., February 4, 1939, That the convention adopt the following resolutions and findings, and that a copy of said resolutions be sent to the Senators and Congressmen representing this State at Washington:

1. That section II of the National Housing Administration Act as amended be not renewed and that same be allowed to expire as of July 1, 1939.

2. That section 203–A of the National Housing Administration Act, as amended, be neither altered nor amended by the coming session of Congress with regard to the refinancing for mortgages in general, and that after July 1, 1939, the National Housing Act discontinue the refinancing of existing mortgages.

3. That section 203–B–3, with reference to 25-year loans, be neither altered nor amended in such way as to continue the insurance of loans having maturities of 25 years.

4. That this league, while being in sympathy with the major objectives of the Federal Housing Administration, desires to place itself on record that it is of the opinion that the home-financing agencies of the Nation have sufficient funds available to adequately finance the noninsured loans, a home-building program of sufficient volume to adequately take care of the housing needs of this country, and is ready and willing to carry out such a program.

February 4, 1939, in convention, Colorado Springs, Colo.

[SEAL]

P. L. NEUSCHAFER,
President, Savings and Loan League of Colorado.
H. W. RAMEE,
Secretary, Savings and Loan League of Colorado.

RESOLUTION

Whereas there has been introduced bills in Congress at Washington asking for a reduction of interest rates held by the Home Owners' Loan Corporation; and

Whereas the Home Owners' Loan Corporation has been operating at a loss; and

Whereas any reduction in interest rates would create a further loss that would necessarily have to be paid for by the citizens of the United States; and

Whereas the parties benefited only represent a very small portion of the population of this country and any reduction in interest rates would, in effect, be a subsidy to a small group of people at the expense of the citizens and taxpayers of this country, most of whom are as much entitled to a subsidy from the Government of their homes as the holders of the properties on which the Home Owners' Loan Corporation holds loans, and such procedure would result in the payment by the Government of an indirect bonus to the few at the expense of the many: Now therefore be it

Resolved by the Colorado State Building and Loan League at its thirty-second annual convention, That said league is opposed to any change or reduction in the interest rates charged by the Home Owners' Loan Corporation and that a copy of this resolution be sent to the Senators and Congressmen representing the State of Colorado at Washington.

February 4, 1939, in convention, Colorado Springs, Colo.

[SEAL]

P. L. NEUSCHAFER,
President, Savings and Loan League of Colorado.
H. W. RAMEE,
Secretary, Savings and Loan League of Colorado.

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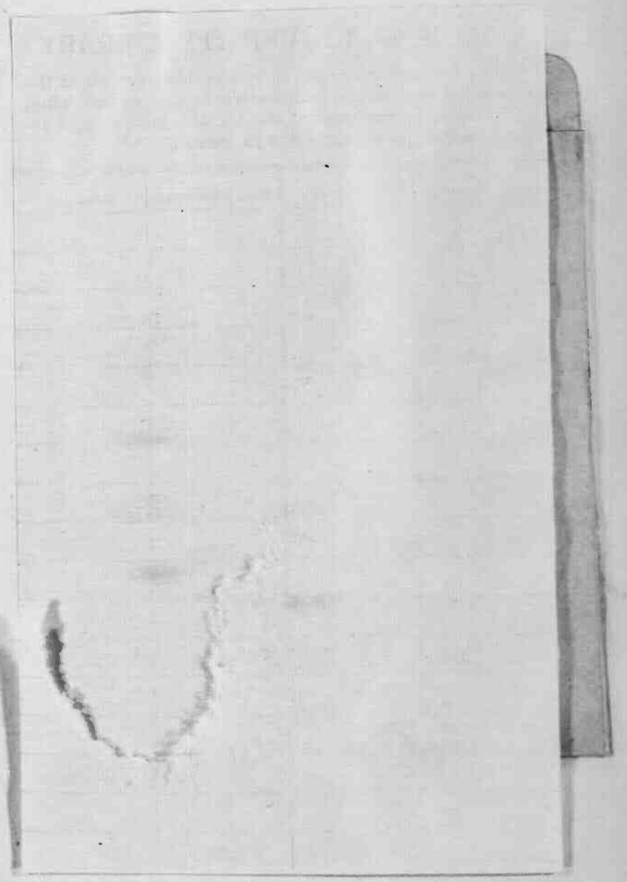

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